Some light pencil marking
in margins, else very good

~~35.00~~

35

R. Reid
249 Erie Ave
Brantford, Ont

THE BANKING SYSTEM OF CANADA

BY

BENJAMIN HAGGOTT BECKHART

Assisted by H. V. Cann, J. Courtland Elliott, H. C. McLeod, and W. A. Mitchell

Reprinted from

"FOREIGN BANKING SYSTEMS"

NEW YORK
HENRY HOLT AND COMPANY

PRINTED IN THE
UNITED STATES OF AMERICA

CHAPTER V

THE BANKING SYSTEM OF CANADA

BY

BENJAMIN HAGGOTT BECKHART [1]

Assisted by H. V. CANN, J. COURTLAND ELLIOTT, H. C. McLEOD, and W. A. MITCHELL

PREFATORY NOTE

The writer desires to acknowledge the very great indebtedness due Mr. H. C. McLeod, at one time General Manager of the Bank of Nova Scotia, who placed at the author's disposal his voluminous accumulations and writings on the Canadian banking system and so generously and unsparingly gave of his time and strength. In fact so important were Mr. McLeod's contributions, that the writer suggested that he become a joint author of the chapter and had Mr. McLeod lived to make this possible, the monograph would have been greatly enriched. As it was he prepared the table appearing on pp. 334–337 which he considered in preliminary form but which contains much information not elsewhere available.

The chapter has been read with minute care by the following persons who have made innumerable suggestions of the utmost value in whipping it into final shape:

Mr. H. V. Cann, a retired banker and a close associate of Mr. McLeod.

Mr. J. Courtland Elliott, Canadian Economist, formerly with the Division of Research and Statistics, Federal Reserve Board, Washington.

Mr. W. A. Mitchell, formerly with the Royal Bank of Canada.

In addition, Mr. H. M. Cameron, now with the McGraw-Hill publications, New York City, has given much of his time and energy, and has drawn on his deep experience and knowledge of the financial organization of Canada.

In the statistical and other phases of the work, the writer has had the assistance of Mr. Richard H. Garlock, Miss Margaret G. Myers,

[1] Assistant Professor of Banking, School of Business, Columbia University.

Mrs. Marion Andrews Upgren, Mr. Donald Marvin, and Mr. H. E. Cooper.

Then he wishes to express his appreciation for the courtesies shown by the *Monetary Times* (Toronto), the officials in the chartered banks and the Canadian Government for the patience and thoroughness shown in answering his many and, no doubt troublesome, inquiries.

Those to whom acknowledgments are due and to whom they have been given are not to be held accountable for any errors which may be found or for opinions expressed, for which the writer is alone responsible. In fact, in many instances the collaborators neither agreed with the writer nor among themselves as to generalizations made or opinions held.

ADDENDUM

On July 13, 1928 the approval of the Minister of Finance was given for the Canadian Bank of Commerce to absorb the Standard Bank of Canada, issuing one share of its own for each share of the Standard Bank. With this absorption, there are 10 chartered banks in the Dominion.

THE MONETARY, CREDIT AND BANKING ORGANIZATION OF CANADA

The Canadian banking system offers a puzzling contrast to the business man and banker in the United States, accustomed as each is to the unit type of bank, organized under the widely varying laws of forty-eight different states or of the Federal Government. To one accustomed to such a system the most striking difference, and the feature observed first, is the small number of banks, all operating under Dominion law, each with tens and hundreds of branches scattered across the continent. Not that branch banking is unknown to business men in the United States,[2] for in some states, particularly in California, where the law permits, it has within recent years reached a high stage of development, but the typical American bank is the unit institution, operating without branches and with relatively small resources, and catering to the agricultural and business interests of a single locality. Other differences, less spectacular but as real, appear in the absence in Canada of a central reserve bank and of any

[2] For a study of branch banking in the United States, see report filed by Dr. H. Parker Willis of Columbia University with the Banking and Currency Committee of the United States Senate in February, 1926.

organized money market such as a call loan,[3] a discount, or a commercial paper market. These contrasts, basic and fundamental as they are, existing in the financial organization of two countries similar in economic life, resources and people, make the Canadian banking system of the utmost importance and fascination to the American student, interested as he now is in the problems of branch banking and the many baffling problems involved in the relationship between the type of banking system and the economic development of a nation.

The Monetary and Credit System of Canada. Before discussing the many absorbing questions involved in the banking organization of Canada, its monetary and credit structures will be briefly treated. These are very similar and closely allied to those of the United States. The economic interdependence of the two nations, the intimacy of trade and financial ties, make this natural and inevitable. Of the important self-governing dominions, Canada, with the exception of Newfoundland, alone fails to use the £ as the standard of value, the currency unit or medium of exchange. Economic affiliations with her neighbor to the south have been strong enough to bring about the use of the American dollar as the basis of Canadian currency, even though, as a matter of form, the sovereign (but not the £ sterling) has been given the legal tender power.

The monetary system was given legal sanction by the Uniform Currency Act of 1871, which made the British sovereign legal tender for \$4.86-2/3 and the United States eagle for \$10.[4] Authority was also given for the coinage of a Canadian \$5 gold piece, but no gold coins were issued prior to the establishment at Ottawa in 1908 of a branch of the Royal Mint. Through these years there was little need for domestic gold coinage, as Canadians preferred to use paper money in the form of Dominion notes or of the

[3] While the call loans in connection with the Montreal and to a lesser extent with the Toronto Stock Exchanges have reached large totals for a generation or more, these loans are not as "callable" or realizable as are the call loans in New York.

[4] In 1853 a measure had been passed providing for the adoption of a decimal currency based on the American dollar. Beginning with January 1, 1858, all Government accounts, by an act approved the previous year, have been kept in dollars and cents. *The Canada Year Book*, 1924, p. 785. In 1910 American gold coins of \$5 and \$20 in denomination were given the legal tender power. See Currency Act, 1910, 9–10, Edw. VII, c. 14, s. 9–10.

notes of the chartered banks. The gold required for export or for the till money of banks consisted either of gold bars or of the gold coins of England or the United States.[5]

Beginning in 1908 the Canadian mint finally began to issue gold sovereigns and in May, 1912, under authority granted in 1910, the first $5 and $10 Canadian gold pieces were coined.[6]

Fractional currency is issued in denominations of fifty, twenty-five, ten, and five-cent silver pieces, and bronze pennies (cents or coppers). Since 1921 five-cent nickel pieces have been added. The standard of fineness of silver coins is 8/10 and their weight is equal proportionately to their respective fractions of the silver dollar, none of which have been issued, but which have a legal weight of 360 grains. Silver coins are legal tender to $10, nickel to $5, and bronze to 25 cents.[7]

Paper Money. Though Canada legalized gold as a standard of value soon after confederation, paper money, either in the form of notes of the Dominion Government or of those of the chartered banks, serves as the hand to hand currency. Dominion notes, secured in part by gold and in part by approved securities, do not circulate widely excepting in the case of paper money of less than $5 in denomination which consists entirely of Dominion notes. Dominion notes are used principally for the settlement of clearing house balances, or for the expansion of the bank note currency.[8] They were first issued by an act passed in 1868, which gave authority for an amount up to $8,000,000 not entirely covered by gold. From time to time amendments were passed, raising the amount of the uncovered issue. A digest of this legislation follows:

[5] See *Interviews on the Banking and Currency Systems of Canada*, pp. 53 and 158.

[6] *Fifty-Fifth Annual Report of the Deputy Master and Comptroller of the Royal Mint, 1924*, p. 126.

[7] *Fifty-Fifth Annual Report of the Deputy Master and Comptroller of the Royal Mint, 1924*, pp. 127–128.

[8] See pp. 385–401 for a further discussion.

Date of Act	Amount of Dominion notes permitted, not entirely covered by gold	Gold Reserve Requirements
1868 (31 Vict., c. 46)	$8,000,000	Reserve fixed at 20% in case circulation did not exceed $5,000,000; 25% reserve against circulation from $5,000,000 to $8,000,000.
1870 (33 Vict., c. 10)	9,000,000	Reserve fixed at 20%, but the $9,000,000 were to be issued only when reserve amounted to $2,000,000. Any amount issued in excess of $9,000,000 was to be entirely covered by gold.
1872 (35 Vict., c. 7)		The law of 1870 was amended fixing the reserve against the circulation issued in excess of $9,000,000 at 35%.
1875 (38 Vict., c. 5)		The laws of 1870 and 1872 were amended so as to require a reserve of 50% in specie for circulation between $9,000,000 and $12,000,000, and a reserve of 100% for circulation issued in excess of $12,000,000.
1880 (43 Vict., c. 13)	20,000,000	Reserve of 25% in gold and guaranteed debentures of which at least 15% was to be in gold.
1895 (58–59 Vict., c. 16)		Authority was given for the issuance of any amount above $20,000,000 provided it were secured entirely by gold.
1903 (3 Edw. VII, c. 43)	30,000,000	The Minister of Finance was required to hold gold and guaranteed debentures of not less than 25% against Dominion notes issued and outstanding up to $30,000,000; beyond that they were to be secured entirely by gold.
1914 (5 Geo. V., c. 4)	50,000,000	The Dominion Government was given authority to issue notes up to and including $50,000,000 against which a gold reserve of 25% had to be maintained.

1914 (5 Geo. V., c. 3) (See Finance Act, 1923)		The Finance Act, 1914, made provision, in case of war, panic, etc., for the issue of Dominion notes against certain approved securities.
1915 (Chap. 4)	76,000,000	The Dominion Government was allowed to issue notes up to $26,000,000 without any reserve of gold, of which $16,000,000 were to be secured by certain specified railway securities guaranteed by the Dominion Government. Notes issued in excess of $76,000,000 were to be secured dollar for dollar by gold except as provided in the Finance Act of 1914.
1923 (Chap. 48)		The Minister of Finance may make advances by the issue of Dominion notes to the banks upon the pledge of Government securities, Canadian municipal securities, promissory notes and bills of exchange secured by documentary title to grain, etc., and promissory notes and bills of exchange issued or drawn for agricultural, industrial or commercial purposes.

After the outbreak of the war, it will be observed that the legal limits of the Dominion note circulation had been increased to $50,000,000, against which a gold reserve of 25% had to be maintained.[9] At that time there were $114,182,098 of Dominion notes in circulation,[10] of which $92,663,575 were fully covered by specie. Later legislation was passed which permitted the fiduciary issue to expand more or less indefinitely,[11] within the limits of

[9] See pp. 387–401 for a further discussion.

[10] Including a few unredeemed Provincial notes which had become a liability of the Dominion.

[11] The situation existing there revealed a weakness in the Canadian bank note in that it seemed unable to expand to meet a war demand for currency. Were there a central rediscounting bank, operating along lines of the Bank of France or the Federal Reserve Banks, which were empowered to coin commercial paper into bank notes, this situation could have been met.

acceptable securities. This step, along with certain others, was deemed necessary by the heavy withdrawals of gold from the banks on the part of depositors hysterically trying to protect their interests. After due consultation with the bankers, an Order-in-Council was made public on the morning of August 4, permitting advances [12] of Dominion notes, to the chartered banks against the pledge of securities deposited with the Ministry of Finance. As a further precaution the banks were empowered to make payments in their own notes, though they had not previously possessed the legal tender power under the existing laws, and the banks were also granted the privilege of issuing the excess bank note circulation previously confined to the crop-moving period throughout the entire year. The amount of bank notes outstanding were not at any time to exceed the amounts authorized by the existing laws. The Order-in-Council, later given legislative sanction by The Finance Act, 1914, allowed for inflation in Canada incident to the financing of the war in much the same fashion as was followed in England with the Bradburies or currency notes. From an amount equal in 1914 to $115,000,000, the Dominion notes increased rapidly, reaching a peak of $337,000,000 on November 30, 1919. Since then, as shown in the table at the top of page 296, the amount outstanding has declined by nearly $100,000,000.[13]

While the amount of Dominion notes outstanding is large, these are mainly used in inter-bank transactions, and it is the bank notes of the chartered banks themselves which are universally used as the medium of exchange in denominations of $5 and above and constitute the " M " of Professor Fisher's famous equation of exchange. A more detailed discussion of the bank notes occurs later.[14]

The Credit System. As in the case of the monetary system, the credit system of Canada, developing from Scottish and British origins as did that of the United States, offers no striking peculiarities to the American student. The open-book account, the promissory note, the trade acceptance are used in the financing

[12] Originally it was stipulated that such advances were to be repayable not later than May 1, 1915, with interest at a rate to be approved by the Minister of Finance but not less than 5% per annum.

[13] Further details of the War Finance Act are given in a later section, pp. 387–401. Data for table may be found in the *Canada Year Book, 1925,* pp. 821–822.

[14] See pp. 375–385.

— DOMINION NOTE CIRCULATION AND RESERVES AT JUNE 30, 1890–1926.

Years ended June 30	Notes in circulation					Reserves of specie	Circulation uncovered by specie[18]	Percentage of specie reserve to circulation
	Notes 1, 2, 4 and 5, and fractionals[15]	Large notes, 50, 100, 500, 1000, 5000[16]	Total					
			Amount	Per capita	Index No.[17]			
	$	$	$	$		$	$	p.c.
1890	6,665,942	8,691,950	15,357,892	3.20	65.3	3,285,515	10,125,711	21
1891	6,768,666	9,407,650	16,176,316	3.34	68.2	3,887,027	10,452,623	24
1892	6,898,348	10,384,350	17,282,698	3.53	72.0	5,061,577	10,414,455	29
1893	7,136,743	11,311,750	18,448,493	3.73	76.1	6,449,348	10,052,479	35
1894	6,967,818	13,093,900	20,061,718	4.09	83.5	8,292,405	9,822,647	41
1895	7,059,331	12,460,900	19,520,231	3.87	79.0	7,761,084	9,812,481	40
1896	7,377,096	12,995,100	20,372,196	4.00	81.6	8,758,252	9,667,295	43
1897	7,519,345	14,798,750	22,318,095	4.34	88.6	10,723,649	9,650,780	48
1898	8,157,243	14,020,950	22,178,193	4.26	86.9	10,813,739	9,417,788	49
1899	8,770,165	15,466,300	24,236,465	4.60	93.9	13,061,775	9,228,024	54
1900	9,640,473	16,454,450	26,094,923	4.90	100.0	12,476,044	11,672,213	48
1901	10,161,809	17,736,700	27,898,509	5.19	105.9	14,578,117	11,394,769	52
1902	11,029,985	21,750,400	32,780,385	5.92	120.8	18,901,639	11,932,080	58
1903	12,173,248	26,832,950	39,006,198	6.87	140.2	25,930,594	11,128,938	66
1904	12,581,833	28,992,950	41,574,783	7.13	145.5	23,422,625	16,205,492	56
1905	13,045,820	34,288,400	47,334,220	7.89	161.0	28,890,837	16,062,098	61
1906	14,633,576	35,307,850	49,941,426	8.09	165.1	29,013,931	18,980,829	58
1907	15,939,131	42,377,400	58,316,531	9.25	188.7	34,989,270	21,380,595	60
1908	15,279,675	47,778,450	63,058,125	9.71	198.2	39,141,184	21,950,275	62
1909	15,860,149	63,145,150	79,005,299	11.80	240.8	55,363,266	21,695,367	70
1910	17,871,477	71,414,250	89,285,727	12.90	263.3	66,409,121	20,929,940	74
1911	19,840,695	79,468,250	99,308,945	13.78	281.2	78,005,231	21,303,714	78
1912	22,982,588	88,949,650	111,932,238	15.19	310.0	92,442,098	19,490,140	82
1913	28,845,737	87,517,800	116,363,537	15.45	315.3	94,943,499	21,420,038	81
1914	24,586,448	89,595,650	114,182,098	14.84	302.8	92,663,575	21,518,523	81
1915	25,183,685	126,937,050	152,120,735	19.34	394.7	89,573,041	62,547,693	59
1916	27,283,425	148,213,750	175,497,175	21.84	445.7	114,071,032	61,426,143	66
1917	29,498,409	149,069,600	178,568,009	21.82	445.3	119,110,113	59,457,896	67
1918	32,623,514	248,716,000	281,339,514	33.78	689.4	114,951,618	166,387,896	41
1919	35,084,194	265,665,650	300,749,844	35.47	723.9	118,268,407	182,481,437	39
1920	37,203,890	254,812,400	292,016,290	33.83	690.4	95,538,190	196,478,100	33
1921	34,403,934	234,365,250	268,769,184	30.58	624.1	83,854,487	184,914,697	31
1922	31,404,161	201,344,250	232,748,411	25.96	529.8	85,495,068	147,253,343	37
1923	33,276,533	200,869,000	234,146,433	25.60	522.4	121,025,725	113,120,708	52
1924	34,816,442	175,492,150	210,308,592	22.54	460.0	96,732,954	113,575,638	46
1925	32,294,827	176,096,650	208,391,477	22.25	454.1	116,263,994	92,127,483	56
1926	32,512,285	143,200,630	175,712,915	18.49	377.4	94,999,481	80,713,434	54

[15] Includes Provincial notes amounting to $32,857 in 1890 and reduced gradually to $27,687 in 1925.

[16] Includes issue of $50,000 notes, 1919–1925.

[17] Per capita circulation in 1900 is taken as 100.

[18] The circulation uncovered by specie reserve was to a considerable extent covered between 1890 and 1910 by the holdings of guaranteed debentures, amounting to $1,946,666. Since 1914 it has been covered in the main by the holding against it of approved securities. On June 30, 1925, the Dominion notes outstanding against securities, approved under the Finance Act, 1914, and amendments, and c. 4 of the Statutes of 1915, amounted to no less than $77,200,000.

of domestic trade, and the bankers' acceptance in the financing of foreign. The over-draft is used to some extent, principally for temporary requirements, but not at all so widely as in England.[19] Its use is discouraged by the banks as much as possible. The trade acceptance is rather extensively used as between wholesalers and retailers. In fact it is the general practice for retail purchasers to give the wholesaler trade acceptances for their obligations, which the latter then indorses and discounts with his bank. Open-accounts are not so general in Canada as in the United States. Advances are also made upon the discounting of promissory notes, with or without security, and to a certain extent upon the assignment of accounts receivable,[20] subject to the legislation governing these in the several Provinces. The bankers' acceptance is confined entirely to foreign trade. Since there is no market for acceptances in Canada, the letters of credit issued by the chartered banks invariably provide for drawings upon their London or New York offices. Finally, and this practice in Canada is unlike that followed in the United States, the business man there deals with only one bank except in the case of very large corporations and stock exchange brokers. The banker gets to know his customer's affairs intimately and is in a most strategic position to advise and assist him.

The Financial Organization. The issuance of bank notes and the commercial banking functions of Canada's financial organization are in the hands of the ten chartered banks, which operate under the law of the Dominion to which the British North America Act gave exclusive authority in all matters pertaining to the regulation of the currency and coinage, banking, and the issuance of paper money. Provincial legislative bodies were estopped by this from the creation or incorporation of banks of discount and deposit.[21]

[19] Until within recent years it was widely used, but banks have been discouraging this form of borrowing and have been educating their customers to the use of promissory notes.

[20] Accounts receivable are not looked upon with favor as security by banks.

[21] Unless authorized by the Dominion no individual or corporation may use the word "bank" in the title of its business, nor may the chartered banks advertise as a savings bank though they may advertise they have such a department.

The first bank act of the Dominion was passed in 1871, under the terms of which the 28 banks [22] then in operation were reincorporated. Of these, 18 had been chartered by Upper and Lower Canada (thereafter divided into Ontario and Quebec), 5 by Nova Scotia, 4 by New Brunswick, and 1 operated under royal charter. As the charters are granted for but ten-year periods, the act is revised decennially. Such revisions have taken place in 1881, 1891, 1901, 1913, and 1923. Important amendments were adopted in 1908 and 1924.

Origin of Canada's Banking System. The branch banking system of Canada with its asset-secured bank notes, made permanent by the Act of 1871, was not adopted without a struggle. There were those who favored the adoption of the unit type of bank as provided for in the National Bank Act of the United States, issuing notes secured by government bonds. A reason for proposing the American system was the failure of two large Canadian banks, occurring about the time of the adoption of the National Bank Act. Shortly after the adoption of the British North America Act by the Imperial Parliament, E. H. King, General Manager of the Bank of Montreal, gave considerable impetus to the movement favoring the adoption of the bond-secured bank note. He strongly recommended the establishment of independent local banks issuing notes based on Dominion securities deposited with the Receiver-General.[23] Banks so organized were to hold a fixed minimum reserve of specie or Dominion notes against deposits. These views were shared by Thomas Paton, the Canadian representative of the Bank of British North America, and were indorsed by Sir John Rose, then Minister of Finance. The views of this group were embodied in a series of resolutions

[22] Breckenridge, *The History of Banking in Canada* (National Monetary Commission), p. 89.

[23] See, Adam Shortt, *The Banking System of Canada,* pp. 627–628 in *Canada and Its Provinces,* Vol. x.

"Mr. King favored a system of banking under which the note circulation of the banks should be entirely based upon government securities, and the Bank, which was benefiting by large deposits from the United States, and which had been appointed the Financial Agent of the Province, increased its holdings in government securities, so that they amounted in 1868 to upwards of $4,000,000,"—p. 45, *The Centenary of the Bank of Montreal, 1817–1917,* Head Office, Montreal, Canada, 1917. See also *The Monetary Times,* Vol. 2, p. 584 (April 29, 1869) and Vol. 7, p. 1334.

which Rose laid before Parliament on May 14, 1869, and which were utilized to serve as the basis for the first bank act. In the speeches defending his proposals, he laid particular emphasis on the need of a sound bank-note currency of a uniform value over the Dominion. The notes were commonly payable at the place or office issued, and did not necessarily circulate at par elsewhere. However much inconvenience resulted, this was but a minor defect subject to easy rectification. For the sake of correcting this, Canadians were quite unwilling to part with the real essential advantages of their banking and currency system by adopting one so inherently defective.

Committees of the new Dominion Parliament had been appointed, in the meanwhile, to study the many problems involved in the establishment of a banking and currency system. The first report of the Select Committee on Banking and Currency of the House, issued in the session of 1868–1869, consisted simply of a questionnaire relative to the advisability of introducing the American system, and of the replies received, which had been sent to bankers, merchants and other persons prominent in the life of Canada.[24] The weight of the evidence strongly opposed further issues of Government money, or issues of bank notes based on specific security, or the establishment of small local banks. It was held that the introduction of the National Banking System of the United States would have the effect of greatly increasing the cost of bank-note issue, which would bear with particular severity on the agricultural communities,[25] and would give Canada a currency inadequately responsive to trade needs. Agricultural credits would probably be curtailed as a result, and the number of offices in the country districts reduced.

Not daunted by these replies, the banking committee of the House, of which Rose was chairman, presented in May, 1869, resolutions calling for the adoption of measures embodying the essentials of the National Bank Act. This met with a storm of protest. Canadians were too well satisfied and pleased with their branch banks, possessed of the right of issuing an asset bank-note currency, to have substituted a generally acknowledged inferior

[24] The questionnaire may be found in the *Journals of the House of Commons,* November 6, 1867 — May 22, 1868, Appendix No. 9.

[25] See Breckenridge, *The History of Banking in Canada,* pp. 92–93.

system, composed of small local institutions, with a government-bond-secured inelastic note issue. The concensus of opinion favored the continuation by Dominion law of the banking system existing up to then under Provincial law. Over seventy petitions were received opposing the proposals of the Committee, from boards of trade, the leading cities and towns, and from ten of the banks.[26] Support for the American plan of banking was given by representatives from New Brunswick and southern Nova Scotia and, of course, by the Bank of Montreal and by the Bank of British North America. The banks of Halifax, and of the Provinces of Quebec, Ontario, and Western Canada were strongly opposed. But a single day (June 1, 1869) was devoted to the proposals submitted by the committee to the House. So intense grew the hostility that Rose was forced to relinquish his portfolio in the Cabinet.[27] At about this same time King retired from the active management of the Bank of Montreal. All prospects therefore of recasting the Canadian banking structure along American lines vanished. Canada had made a definite and clear-cut decision not to have small local branchless banks.

As a successor to Sir John Rose, Sir Francis Hincks, who for fifteen years had been in British Colonial services and but lately returned to Canada, was selected as Minister of Finance by Sir John A. Macdonald. After numerous conferences with bankers, merchants, publicists and others, and after a careful study of existing legislation, Sir Francis formulated measures which introduced no radical departure from the existing system. The proposed legislation, establishing the banking policies of the country, was enacted in 1870 (33 Vict. c. 11), and in the following year was consolidated with much of the previous banking legislation,[28] into the first general bank act.

Bank Act of 1871. The Bank Act of 1871 fixed the minimum capital of the chartered banks at $500,000, of which at least

[26] See p. 94, *Journals of the House of Commons of Canada,* from April 15 to June 22, 1869 and p. 15 of the index.

[27] Breckenridge, *The History of Banking in Canada,* p. 98.

[28] During the first session of the Dominion Parliament, a general Act (31 Vict. 1867, c. XI) was passed authorizing all banks incorporated by any of the provinces which were now included in the Dominion of Canada to open branches and do business throughout the Dominion. (Ross, *The History of the Canadian Bank of Commerce,* Vol. II, p. 438.)

$100,000 must be paid in (within two years another $100,000 must have been paid in) before a bank might undertake business under a certificate from the Treasury Board. This requirement of subscribed stock, which bore double liability, would be equal in purchasing power at the present time to at least $1,000,000 and was thought sufficiently large at the time to exclude those without sufficient financial responsibility from undertaking the responsibilities and from sharing in the privileges of the banking fraternity. The note issues were limited to the amount of their paid-up capital, and were to be redeemed at the head office in gold coin or Dominion notes. Dividends in any form were limited to 8% per annum until a surplus account (rest) had been accumulated equal to 20% of the paid-up capital. Of such cash reserves against deposits as were maintained, not less than 33⅓% and if possible 50% were to consist of Dominion notes. Monthly returns under prescribed forms were to be sent to the Government and to be published in the official Gazette. The charters of the banks under this act were to expire in 1881. Through the adoption of this legislation Canada had perhaps the most elaborate and detailed banking code of the British Empire which definitely committed her to the policy of nation-wide branch banking, and to an asset-secured bank-note issue confined in total amount to the paid-up capital of the banks, and yet possessing sufficient elasticity then to respond to seasonal and cyclic movements.[29] It was the branch bank features which Sir Francis Hincks thought the most essential and valuable, for a nation of Canada's size, depending mainly on extractive industries, would increasingly rely on such a system in the production, distribution, and exportation of her products.[30] Such nation-wide and many-product financing would require banks of a large size and Sir Francis' first suggestion was a minimum capitalization of $1,000,000 which was, however, opposed by the friends of small banks, especially throughout the Maritime Provinces, and the capital actually provided for represented the utmost concession to his demands.

[29] See Adam Shortt, *The Banking System of Canada,* pp. 633–634.

[30] The underlying principles of this enactment may be traced back to the first Bank of the United States, which served as a model for the early financial institutions in Canada. Ross, *The History of the Canadian Bank of Commerce,* Vol. II, p. 389, and also see writings of Adam Shortt.

The revisions which occur decennially have on the whole improved the Act and have been drafted ordinarily in response to some defect revealed by the experience of years in the Act or in the banking organization. These frequent revisions have been of real advantage in preventing the act from becoming obsolete, in contrast to the policy followed in the United States, where reform in the National Bank Act comes not through periodic revisions but through the addition here and there of patch-like provisions which serve more to confuse and complicate the measure.

THE REVISION OF 1881. In the following paragraphs a brief résumé will be made of the changes introduced since 1871. The first revision, which became effective on July 1, 1881, did not materially alter the Act. The important changes were:

(1) The banks were restricted in their issue privilege to notes of $5 and multiples thereof which were given a prior lien on the assets of failed institutions.

(2) The proportion of Dominion notes required to be held by the banks was fixed at 40% of such cash reserves as they might choose to maintain.

(3) The monthly return was made fuller and more detailed as regards the financial relations of the banks with one another and as regards the classes of bonds held as investments.[31]

THE REVISION OF 1891. The bankers began to prepare as early as 1888 for the next revision which introduced changes of some real significance. One of the harassing problems was that arising from the discount on the notes of failed banks which in the case of the Maritime Bank had amounted to 60 per cent. The ultimate convertibility of notes was assured by the prior lien possessed by the holder, but before this could take place considerable delay and hardship was encountered by the note holder. In order to prevent this depreciation, the feeling was strong that the note holder should be paid as promptly as possible after the

[31] The question of government inspection or examination and of the compulsory appointment of auditors was discussed but did not materialize into any legislation.

suspension had taken place. Still another complaint arose from the fact that bank notes did not circulate at par in all parts of the country, but were subject to annoying discounts when offered for payment in places remote from the head office of the issuing banks. This defect was one of increasing importance with the growing inter-provincial trade. Then there were those, among whom was the Hon. George E. Foster, Minister of Finance, who proposed, as was required of banks in the United States, the maintenance of fixed minimum reserves, to the extent of 10% of liabilities, and others who urged the auditing of the banks' books by competent disinterested persons appointed by the shareholders who would present their reports to the Minister of Finance and the shareholders. The bank failures occurring in the eighties convinced some of the necessity of a more stringent supervision of the banks, of independent audits, and persuaded others of the desirability of the American bond-secured note issue. None of the provisions respecting reserves or audits or the adoption of the American note issue prevailed against the opposition and arguments of the bankers, especially of Mr. B. E. (later Sir Edmund) Walker. The note issue sections were, however, modified to insure the prompt redemption of the notes of failed banks by the insertion of the following provisions:

(1) A fund known as the Bank Circulation Redemption Fund was established to prevent the notes of failed banks from being quoted at a discount between the time of failure and redemption. As originally constituted this fund was to be built up from contributions by the chartered banks, equal in amount to 2½% of their average circulation in the year 1890–1891 and to a further 2½% in the year 1891–1892. Thereafter the fund was to be adjusted annually so that it would be equal to 5% of the average circulation during the twelve months preceding the 30th of June each year. The annual average was to be calculated upon the greatest amount outstanding during each month. No payment was to be made from the fund unless the liquidator of the insolvent institution should fail to make arrangements for the redemption of the note liabilities within two months of suspension. Directly upon the default of a

bank the notes were to bear interest at the rate of 6% per annum until such time as the liquidator published notice of his readiness to redeem.

(2) Furthermore, the banks were required to insure the redemption of their notes at par. For this purpose redemption agencies were to be established at Halifax, St. John, Charlottetown, Montreal, Toronto, Winnipeg, and Victoria.

(3) Another change incorporated in the act required the paid-up capital to equal $250,000 before a bank might open its doors. No notes were to be issued or business conducted until this amount of money had lain on deposit with the Minister of Finance for at least four weeks and such longer time as might elapse until the issue of a certificate by the Treasury Board. Within a year after the date of the charter a bank was required to secure the necessary capital and to comply with all the legal preliminaries to commencing business.

(4) Directors were henceforth to be required to be owners of a certain amount of paid-up rather than subscribed stock as a qualification for their holding office.

(5) The requirement that no dividends in excess of 8% per annum be paid until the surplus were equal to 20% of capital was raised to 30%.

(6) Another major change, suggested by Mr. Z. A. Lash on behalf of the Bankers' Section of the Toronto Board of Trade, gave the lending bank in certain loans the same legal power over the goods of the debtor as would have been granted by a warehouse receipt. This would permit the chartered banks to lend an amount to manufacturers and shippers for seasonal requirements much in excess of the amount which could prudently be extended on the basis of the firm's capital inasmuch as the bank had the additional protection of this secret lien.[32]

[32] See Ross, *History of the Canadian Bank of Commerce,* Vol. II, pp. 463–4.

THE REVISION OF 1901. The most important and far-reaching change introduced at the next revision was the official recognition given The Canadian Bankers' Association as an agency in the supervision and control of certain activities of the banks. This society had been organized in the early nineties and had proved of some importance to the member banks. A chief cause for the organization of the Association was the legislation at the preceding revision of 1891 under which the Bank Circulation Redemption Fund was established. All the banks are contributaries to this fund and in case of the failure of a bank and subsequent depletion of the fund, the remaining banks are obliged to restore the fund. Thus every bank has an interest in the regularity of the note issues of every other bank, and it was important that there should be some control by a properly authorized body of the printing and distribution of notes to the banks and their destruction. With a view of enabling it to act in a legal capacity, both on its own account and in connection with the Dominion Treasury Board, the Association was incorporated.

The provisions inserted in the act at this time intrusted the Bankers' Association with the following responsibilities: [33]

(1) Control over clearing houses under rules and regulations approved by the Treasury Board.

(2) The appointment of a curator to assume supervision of the affairs of suspended banks, with a view of protecting the interests of shareholders and depositors. The curator, so selected, was to administer the bank until it resumed operations or until a liquidator was appointed by the court in case the bank were unable to resume operations.

(3) Supervision of the printing and distributing of notes to the banks and their destruction.

In addition to this change, the Bank Act included provisions permitting one bank to sell its assets to another. More detailed monthly returns were required and the interest on the notes of failed banks was reduced from 6% to 5% in order to better adjust it to market conditions.

[33] For a further discussion see pp. 445–447.

Amendment of 1908. In order to permit an increase in circulation during the crop-moving period, the banks were granted permission to increase their circulation in the months of October, November, December, and January by an amount not to exceed 15% of the issuing bank's paid-up capital and surplus (rest or reserve fund). Such emergency circulation was to be taxed at a rate to be fixed by the Governor-in-Council but not to exceed 5% per annum. In 1912 this period was lengthened to include the months of September and February.

The Revision of 1913. The next general revision, which took place in 1913,[34] effected the following changes:

(1) Provision was made for a shareholders' audit by auditors chosen by the shareholders from a panel selected by The Canadian Bankers' Association and approved by the Minister of Finance.

(2) The central gold reserves were established.

(3) Additional facilities were provided for extending loans to farmers.

For several years there had been a demand for some sort of stockholders' audit or external inspection. The leader in this movement, and the one who aroused the nation to the need of such reform, was Mr. H. C. McLeod, then General Manager (in American banking parlance President) of The Bank of Nova Scotia and at one time an official of The Canadian Bankers' Association. In his address on January 26, 1910, before the Seventy-Eighth Annual General Meeting of Shareholders of his bank, he spoke in part as follows regarding the necessity for such supervision:

". . . I deemed it a duty to the Bank, as well as to the public, to make the subject of external examination of banks a live issue before the revision of the Bank Act is undertaken in Parliament.

[34] The revision had been postponed from 1911 due to the negotiations then taking place with the United States relative to a reciprocity treaty. The Government of the day was defeated and, in 1912, the new ministry requested and received another year's delay which it thought was justified in view of the many responsibilities it faced.

In this I am gratified to have the hearty support of my fellow Directors, and to all appearances, the almost unanimous approval of the shareholders, many of whom have expressed strong views in its favor. . . .

" The public has taken more interest than we hoped for at a time when topics of the greatest national import were absorbing attention. . . . But I am not satisfied with banking conditions in Canada, and I am apprehensive of the results that will follow the period of fresh inflation of bank credit on which Canada has just entered. . . . A well-informed banker has announced in words that cannot be mistaken, in regard to his authority to speak for the Government, that there is not likely to be any important change in the Bank Act. . . . All the members of The Canadian Bankers' Association are opposed to changes that I have urged with the object of doing away with secretive management, and they suggest no other remedy for the demonstrated weakness of our system.[35]

The disastrous failure of the Farmers' Bank which had gambled away its resources on the Keeley mine, together with the crusading work carried on by Mr. McLeod, crystallized public sentiment in favor of some form of bank supervision. Powerless to stem the tide, the bankers, who had previously been supported by the Government, withdrew their opposition.

The provisions in the act respecting the central gold reserves made it possible for a bank to issue as many of its notes as it pleased provided equivalent deposits in gold or Dominion notes were made with the Trustees of the Central Gold Reserves. This section, which had been advocated for some time, will be discussed at a later point.[36] The third important change was the power given to banks to make loans to farmers on grain stored on the farm and still in the farmers' possession.

The Revision of 1923. Economic conditions in Canada in 1923, the year of the last revision, made it certain that serious attempts would be made to alter in a radical fashion the banking system. The farmers were passing through a severe and heart-rending readjustment initiated by the fall in the general level of

[35] *Seventy-Eighth Annual Report,* Bank of Nova Scotia, pp. 20 and 23.
[36] See pp. 385–387.

prices three years previously and intensified by the relatively low prices prevailing for their products as compared with the commodities and goods they were forced to purchase. The farmers, discontented and rebellious, were represented by a fairly strong agrarian party (Progressive Party), which occupied a most strategic position in that it held the balance of power as between the Liberal and Conservative Parties. Some of its members were quite firmly convinced that the banking system was diabolically responsible for the economic maladjustments in which the farmers had become enmeshed. Then the debacle of the Merchants Bank of Canada provoked, and not without reason, a clamor for "reforms" of various sorts including the guarantee of bank deposits. Public opinion was roused by the decline in the number of chartered banks and some were inclined to feel that Canada was or would soon be in the deadly grip of a banking "monopoly." The point is that economic conditions in 1923 were far from satisfactory, and this could not but react on the attitude of the Canadians toward the revision and the remedies considered necessary.[37]

Policies of Bankers' Association. The attitude of The Canadian Bankers' Association toward the revision was wholly negative. No constructive suggestions were made, as regards any of the more important problems such as a more efficient system of audits or rural-credits legislation. The Association contented itself with the issuance of pamphlets calculated to instill "sound" ideas of money, credit and banking in the minds of the populace and to perpetuate the existing law. In their annual reports issued before discussions began in Parliament the banks stressed the contribution of the banking system to the economic life and development of Canada and the importance of maintaining the present act intact. Such changes as were advocated were mere technical alterations.[38]

The Government. The policy of the Government as outlined by the Honorable Mr. Fielding, the Minister of Finance, at the second reading of the bill was that of steering a safe middle course

[37] See article by Mr. Robert P. Webber, in *The Monetary Times*, Vol. 69, p. 6.

[38] See for example the annual report of the Dominion Bank, 1922, p. 25; of the Union Bank, 58th Annual General Meeting of Shareholders, p. 5; and of the Bank of Toronto, 1922, pp. 10–11.

between the Scylla of "do-nothingness" and the Charybdis of "radicalism."[39] The Minister indicated that the Government was decidedly in opposition to government inspection, that it would require an army of officials, would be a costly burden and would be no better than the present system. He said, however, that the present system of audit would be improved and strengthened. Bank mergers were not popular, he admitted, but the suggestion that they be allowed only by act of Parliament was not practicable. Neither was the guarantee of bank deposits feasible. He suggested that loans made under section 88 should be registered to give other creditors better protection. The pension funds of the employees, he announced, were to be given greater protection, records of directors' attendance were to be kept, and greater safeguards were to be thrown about loans to bank officials.

After the bill had been read a second time, it was referred to the Select Standing Committee on Banking and Commerce of the House of Commons, which was given leave to sit while the House was in session, was empowered to send for persons, papers and records and was authorized "to investigate the basis, the function and the control of financial credit, and the relation of credit to the industrial problems" — as well as the revision of the act itself. The problems associated with Rural Credits were to be left to a Select Special Committee of the House whose duty it would be to inquire into Agricultural Conditions. The Banking Committee began its examination of witnesses on April 11 and concluded on May 28, 1923. The testimony taken and the Committee's proceedings occupy 1060 pages. The members of the Committee discussed the revised Bank Act among themselves until the 13th of June and on the 18th the House of Commons resolved itself into a Committee of the Whole to consider the measure which was passed two days later. The more important changes incorporated in the Act dealt with:

(a) the employees' pension funds (Section 18)
(b) attendance of directors (Section 28)
(c) returns rendered by the chartered banks (Section 54)
(d) information sent by bank and its auditors to the Minister of Finance (Section 56A)

39 *House of Commons Debates,* March 20, 1923, pp. 1310–1314.

(e) shareholders' audits (Section 56)
(f) insurance business (Section 76)
(g) the registration of loans made under Section 88 (Sections 88 and 88A)
(h) over-due debts (Section 113)
(i) controlled companies (Section 113)

The suggested changes which were not adopted treated principally of:

(a) the bank note redemption fund
(b) limitation of loans
(c) contingent reserves
(d) the guarantee of bank deposits
(e) proposals for additional credit institutions

Employees Pension Fund. It was provided (Section 18, Clause 3) that the pension funds of the employees and officers of the chartered banks must be invested in such securities as were eligible for investment by trustees under the Trust Companies Act of 1914. That this was necessary to safeguard the employees was tragically revealed in the case of the Merchants Bank which had invested such funds in its own stock at 160 and on which 110 was realized by the terms of sale to the Bank of Montreal, a loss of 28 per cent.[40]

Attendance of Directors. It was provided that a record of the attendance of the directors was to be sent each shareholder along with the notice of the annual meeting. Though in case a director was unable to attend by reason of residing at a place remote from the head office the nature and extent of his services might be explained. As indicated by Mr. Fielding there had been considerable complaint that the directors in some instances were mere figureheads and it had been alleged in connection with the Merchants Bank that they had given lax attendance and paid little attention to the affairs of the bank. This provision was an effort to correct the situation.[41] Of course, Mr. Fielding was not

[40] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 4.

[41] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 855 and 937.

overly optimistic regarding the results to be derived but looked upon this requirement as a concession to public opinion which held that the non-attendance or lax attendance of the directors and their lack of interest in the affairs of the bank might account in part for the bank failures in Canada.[42]

The Returns. Various amendments to Section 54 were adopted which tended not only to make the returns clearer and reveal additional information, but also to compel banks to disclose their true monthly condition. Thus any losses which occurred must be embodied in the statements monthly instead of at the time of the issuance of the annual statement and appropriations must be set aside monthly for such contingencies.[43] The additional information required were the amount of advances under the Finance Act, the total liability of banks under letters of credit, the amount of United States and other foreign currencies held, and the substitution of the expression, "non-current loans" for "over-due debts." In addition it was required that the statements of controlled companies be published annually which is in accord with the practice of English banks.

Shareholders' Audits. Some of the most thoroughgoing changes were made in Section 56 strengthening the provisions providing for an audit by representatives of the shareholders which we shall discuss later.[44]

Information to Minister of Finance. By Section 56A it was provided that the auditors' reports should be sent the Minister of Finance. Under the old Act the Minister could order a special audit of a bank, yet such action would cause public alarm and be tantamount to the admission of insolvency. But under the Act as amended the auditors' reports are filed in routine-like fashion and a close and constant check maintained over the bank.[45]

Insurance Business. The Canadian Federation of Insurance Agents severely criticized the banks on the score that they influenced the placing of the insurance of their borrowers, forcing

42 *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 1038. See also pp. 704–705 and 701.

43 *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 28.

44 See pp. 436–441.

45 See *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 23.

them to place this with affiliated Trust Companies, a practice which they declared was contrary to the intent of the act. The bankers denied that any such compulsion had been exerted. But to make a rather long controversy short, a provision was inserted prohibiting an agent or manager of a bank from acting as the agent for an insurance company or from exercising pressure upon any borrower to place insurance in any particular agency.

Over-Due Debts. Some confusion had existed as regards the exact meaning of the term over-due debts as appearing in the 1913 act which the Minister of Finance desired to eliminate through a precise definition. In the original draft of the revised bill the Hon. Mr. Fielding had inserted a section to the effect that this was to be defined as one on which no interest had been paid for a period of twelve months. But the banks felt this to be unduly severe for, as Sir Frederick Williams-Taylor indicated, it would cover 50% and upwards of farm loans in certain sections of the Prairie Provinces. The banks had been sustaining and assisting the farmers, suffering from the deflation of agricultural prices, and though such loans were good ultimately, they would have to be classed as bad. Also, he declared, interest was in arrears on some lumber loans owing to the then existing market conditions.[46] Mr. Clarkson felt that such a definition would be exceedingly harmful to the farmers and stock-raisers of the Northwest Provinces: —[47]

"If the proposed definition shall be put in force, a large portion of such loans will require to be shown in the banks' statements as 'over-due debts' and, with this the case, the banks will be compelled to take action to make their customers pay the interest upon their loans even to the extent of forcing them to realize their assets and at a sacrifice. The banks will also be debarred in many instances from making future advances for fear that they in turn will become 'over-due debts' before they would be repaid."

In the final revision the Minister considerably modified his definition so that the section as amended reads: [48]

[46] *Proceedings of Select Standing Committee on Banking and Commerce*, 1923, p. 285. See also p. 630.

[47] *Ibid.*, p. 711.

[48] 13–14, George V., Chap. 32, Section 113, Par. 5.

For the purposes of any return provided for or required under the last preceding section, or for the purposes of any statement or balance sheet prepared and issued by a bank, there shall not be included amongst "current loans," any loan in respect of which, —

(a) the borrower has not for a period of two years preceding the date of such return, statement or balance sheet, paid the interest thereon at the rate agreed, in cash, unassisted by the bank;

(b) the bank has taken possession of the property or any part of the property covered by any security given by the borrower with the intention of realizing thereon, or has realized or taken any step or proceeding for the purpose of realizing upon any security given by the borrower;

(c) the bank has commenced an action at law to recover from the borrower the amount of the loan or any part thereof;

(d) the borrower has made an abandonment of his estate for the benefit of his creditors or any of them; or,

(e) there is other cause, sufficient in the opinion of the manager of the branch of the bank where such loan is domiciled, or in the opinion of any director or officer of the bank who prepares, signs, approves or concurs in such return, statement or balance sheet, for deeming such loans not to be a current loan.

Provided, however, that any loan falling within this subsection may be included amongst current loans if the directors declare that after due inquiry they have approved such loan as a current loan.

From the point of view of the American student the significant feature of the testimony given in opposition to the Minister's original proposals was the statements made in regard to the assistance rendered by the chartered banks to their agrarian clients. They were in a pathetically depressed condition, arising from economic forces beyond their control and as the statements revealed were carried along by the banks, able to withstand this burden of frozen loans by reason of their tremendous and diversified resources. The small local banks in the United States

were not only unable to do this, but actually failed by the hundreds and thousands.

Numerous other amendments were adopted respecting loans made under the terms of Section 88, the returns of controlled companies and loans to officers and directors which are discussed elsewhere. The penalty provisions were recast to give greater protection to depositors and shareholders.

Rejected Proposals. A considerable amount of time was devoted to a number of proposals which were ultimately rejected. The guarantee of bank deposits received as much attention as any of the defeated issues proposed. The champion of this was a Mr. Ladner, who advocated the guaranteeing of all savings accounts up to and including $3,000. This was necessary, he claimed, if confidence were to be restored in Canadian banks, if the smaller banks were to be placed on a competitive footing with the larger and if the savings of the Dominion were to be diverted from long-term investments to the chartered banks.[49] Mr. Ladner indicated that deposits in the Postal Savings Bank, a Dominion creation, were guaranteed, as were deposits in the Provincial savings banks of Ontario. Regarding the method to be followed, he suggested that a lower rate of interest be paid on the guaranteed deposits which would then be used to accumulate a fund from which the deposits of the failed banks could be paid. The chartered banks and the financial press were without exception opposed. In a pamphlet issued by the Bankers' Association the statement is made that such laws are "unmoral, fundamentally unsound, inherently unjust, and fraught with danger to banking stability."

During the Bank Act discussions, several proposals were put forth for the establishment of additional credit institutions. Some favored the establishment of Provincial banks, similar in functions and powers to the chartered banks but owned by the Provinces, and tied up with the rediscount powers of the Treasury. Others claimed Canada needed a Federal Reserve System, a Bank of Canada,[50] or an institution similar to the Commonwealth Bank of Australia. Among the arguments advanced were that additional credit would become available, and that a more equitable distribution would be brought about, that interest rates would be-

[49] See *House of Commons Debates,* April 9, 1924, pp. 1185–1187.
[50] *House of Commons Debates,* July 2, 1924, p. 3917.

come lower and more uniform and that rediscount facilities were needed to take care of the seasonal and cyclic credit needs of the chartered banks.[51] As regards proposals for a Federal Reserve System, Professor Swanson's testimony is pertinent and to the point: [52]

"With respect to this system a good deal is said to the effect that it would reduce the rate of interest. Instead of reducing the rate of interest its chief danger would be the inflation of credit. The rate of interest would be controlled more or less as it is in the United States; but there is a very grave danger, in my opinion, in giving that power to a body of men. I don't think it is required in Canada. Our banks have the resources right now. It is not the case that we have not the money. No Federal reserve scheme superimposed on our banks could increase the credit to a much greater degree than the banks can increase their credit right now. When a bank says it is not able to extend its loan in an individual case, often it is because the security or the character of the borrower, either one or the other, is not up to par."

Lastly and finally, another proposal which was defeated was the suggestion that the charters of the banks be extended for only a year, during which time a thorough and comprehensive revision could be undertaken. This was sponsored principally by members of the Progressive Party, as well as by numerous farmers' organizations and by the Governments of Alberta and Manitoba. The points were made that the bill had been rushed through the Committee and the House, that the proceedings of the Agricultural Committee should be awaited and studied, that the curtain should be raised on the Merchants Bank debacle and credit conditions in Western Canada, that the advisability of a national currency should be considered, etc. The leaders of the two large parties were opposed and these proposals were defeated.[53]

[51] As regards the proposals for the Provincial banks see Professor McGibbons' report, pp. 37–42.

[52] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 784. See also pp. 301, 363, and 297–298.

[53] See *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 825, 857, 882, 885, and *House of Commons Debates,* 1923, pp. 4034, 4035, 4037, 4040, 4048, and 4160.

Results of Revision. The 1923 Act embodied no far-reaching changes, no revolutionary changes in the credit and financial organization of Canada. The new provisions were all in the direction of greater supervision and publicity, in the direction of conservatism. From their point of view, the chartered banks were pleased that the " radical " proposals of the critics of the banking system had been defeated and, particularly, that government inspection was sidetracked.

Amendment of 1924. As a consequence of the failure of the Home Bank, whose liabilities were larger than those of any bank which had failed since 1868, provision was made for the Government inspection of the chartered banks in an amendment assented to on July 19, 1924. The work of bank examination was to be placed in the hands of an official known as the Inspector General of Banks.[54] It was for the inclusion of such an amendment that Mr. McLeod had devoted himself so generously and wholeheartedly and which was achieved finally as a result of this disastrous failure.

Summary. In the development or evolution of the Canadian Bank Act the tendency has unmistakably been towards a greater degree of government control and supervision. The earlier revisions dealt chiefly with the note issue provisions until, in 1891, not only the ultimate but also the immediate redemption of the notes of failed banks was a *fait accompli.* As a further agency of control (analogous to the mutual type of supervision exercised by clearing houses in the United States), The Canadian Bankers' Association was incorporated in 1900 and given supervision over the printing of the bank notes and insolvent banks. The shareholders' audit was first provided in 1913, strengthened in 1923, and supplemented by external inspection or examination in 1924. The increasing inelasticity of the bank note (which will be discussed at a later point), due to the failure of bank capital to increase, led to the amendment of 1908 providing for the emergency circulation. As an illustration of the tendency to subject the chartered banks to a larger amount of publicity may be cited the requirements respecting more detailed returns until, in 1923, the provision was inserted requiring the returns of subsidiary concerns. The increasing severity of directors' qualifications and liabilities is another case in point. The quasi-public

[54] For a fuller treatment, see pp. 441–444.

nature of banking, the desirability of strict control and oversight, the trustee relationship of banker to depositor, have been given marked emphasis.

Other Types of Credit Institutions. Before proceeding to a more detailed treatment of the operation and administration of the chartered banks and their rôle in the economic organization of Canada, brief mention will be made of the other types of credit institutions. Fiduciary functions are handled entirely by trust companies. Unlike banks in the United States, which are departmentalized or heterogenous institutions handling all types of business (somewhat after the fashion of German banks), the fiduciary functions in Canada are handled entirely by the trust companies. These operate under either Dominion or Provincial charter [55] with the larger companies organized under the latter. While the chartered banks do not undertake this work, some do have rather close relations or are affiliated through interlocking boards of directors with the trust companies. The following table gives the assets and liabilities of trust companies in 1923: [56]

Items	Provincial Companies	Dominion Companies	Total
	$	$	$
Assets —			
Company Funds	32,172,116	10,830,509	43,002,625
Guaranteed Funds	40,436,259	10,649,004	51,085,263
Estates, Trusts and Agency Funds	648,253,964	102,764,835	751,018,799
Total	720,862,339	124,244,348	845,106,687
Capital Stock —			
Authorized	32,800,000	16,100,000	48,900,000
Subscribed	19,602,700	9,653,750	29,256,450
Paid up	16,731,329	7,772,749	24,504,078
Reserve and Contingency Funds	9,871,011	1,908,887	11,779,898
Unappropriated Surplus	1,133,549	104,699	1,238,248
Net profit realized during year	1,753,281	348,474	2,101,755

55 Two of the largest, the Montreal Trust Company and the Royal Trust Company, operate under the laws of Quebec. The former, which is reputed to be closely affiliated with the Royal Bank, had as of a recent date gross total liabilities of 135 millions of dollars while the latter, reputed to be closely affiliated with the Bank of Montreal, had gross total liabilities of 358 millions of dollars. The National Trust Company, an Ontario institution, had gross total liabilities of 139 millions of dollars.

56 *The Canada Year Book,* 1925, p. 846.

Rural Credits. Except for Prince Edward Island, all the Provinces have enacted legislation providing for long-term loans to settlers and farmers. The land banks or farm loan boards established have in the main been on a small scale and able to render but little assistance. The small size of each precludes the possibility of the marketing of a large volume of bonds. As later indicated, a needed reform in Canadian financial organization is a Dominion land bank or at least some unification between the provincial banks. A plan having this for its object was introduced in the House of Commons at the Fourth Session of the Fourteenth Parliament (Bill 237) but failed to pass. Despite the fact that the total loans of the Provincial land banks or farm boards, as Dr. Tory has indicated, amounts to only $23,000,000, or to about 10% of the total farm mortgage indebtedness of Canada, their existence has been justified in educating the public to the value and cheapness of the amortization principle. Their effect on interest rates has been negligible.[57] The Canadian farmer procures his mortgage funds as did his brother agriculturist in the United States prior to the passage of the Federal Farm Loan Act, from life insurance trust and loan companies, and private individuals.[58]

Loan Companies. These are quite similar in their functions to Building and Loan Associations in the United States with the exception that some lend not only on city, but also on rural mortgages. In 1924 a total of 127 such companies were in existence, incorporated under Dominion and Provincial law. Statistics of these companies as of 1923 are shown in the table at the top of the next page.[59]

Savings Banks. There are two systems of savings banks under Dominion management. There are, first, the Post Office Savings Banks, established under the Act of 1867, and second, the banks attached to the Department of Finance under the management of the Assistant Receiver-General. Both of these have been losing deposits within recent years due to the keen competition of

[57] For a detailed discussion of rural credit legislation in Canada, see *Report on Agricultural Credit,* by H. M. Tory, printed by Order of Parliament, 1924, and *Agricultural Loans,* a pamphlet issued by the Dept. of the Interior, Ottawa.

[58] See James B. Morman, *Farm Credits in the United States and Canada,* Chap. XIII, and address of V. Evan Gray, published in *Loan and Trust Corporations' Statements,* Toronto, 1922, pp. 224–243.

[59] *The Canada Year Book,* 1925, pp. 845–846.

Items	Provincial Companies	Dominion Companies	Total
	$	$	$
Book value of Assets	83,319,970	104,866,102	188,186,072
Liabilities to the public	42,175,344	63,600,094	105,775,438
Capital Stock —			
Authorized	55,955,860	94,178,780	150,134,640
Subscribed	22,939,232	36,503,340	59,442,572
Paid up	22,473,552	24,939,622	47,413,174
Reserve and Contingency Funds	16,098,586	14,879,516	30,978,102
Other liabilities to shareholders	1,749,768	1,420,574	3,170,342
Total liabilities to shareholders	40,321,906	41,239,712	81,561,618
Net profit realized during year	2,018,549	2,125,393	4,143,942

the chartered banks and trust companies. The postal savings deposits reached in 1908 a maximum of nearly 48 million dollars. Since then there has been a 50% decline. The Dominion Government Savings Banks have shown even a greater decline. In 1887 their deposits amounted to 21 million dollars while now they are slightly under 9 millions.[60] In addition to these there are several other governmental savings banks. In Montreal there is the City and District Savings Bank, founded in 1846 and in Quebec, the Caisse d'Economie de Notre Dame, founded in 1848. Ontario has a system of Government savings offices established as sub-treasury offices. These, of which there are 15, are located principally in the western parts of the Province. A somewhat similar system is in operation in Manitoba, where four of five sub-treasury offices of the Province accept deposits. Alberta encourages thrift and incidently borrows through the sale of Savings Certificates which draw 4½% per annum.[61]

Coöperative Banks. Coöperative credit societies have reached a high stage of development in Quebec, where there were, in 1923, 113 with an annual business of $11,000,000.[62] In fact this Province is the birthplace of the coöperative credit movement in America and its societies served as a model for the first credit

60 Annual statistics of these may be found in *The Canada Year Book*.

61 The Provincial savings offices were organized largely as a means of securing cheap credit for Provincial Government purposes. They have not been overly successful.

62 *The Canada Year Book*, 1925, pp. 710–712.

union law enacted in the United States, in Massachusetts in 1909. There are a few such societies in Ontario.

Bond Houses.[63] The following table presents a list of the nine leading investment houses of Canada, the date of their establishment and the laws under which they are at present incorporated. The first three on the list are the largest and the best established institutions in the Dominion in this business.

CANADA'S LEADING INVESTMENT HOUSES

	Charter	Business Established
A. E. Ames & Co., Ltd., Toronto	Dominion	1889
Dominion Securities Corp. Ltd., Toronto	"	1901
Wood, Gundy & Co., Ltd., Toronto	"	1905
Greenshields & Co., Montreal	"	1910
Royal Securities Corp. Ltd., Montreal	"	1903
McLeod, Young, Weir & Co., Ltd., Toronto	"	1921
R. A. Daly & Co., Toronto	"	1916
Nesbitt Thomson & Co., Ltd., Montreal	"	1912
Hanson Bros., Montreal	"	1883

There are approximately 218 bond houses, but the above nine are the outstanding ones. They are the firms which originate the new issues and carry on a wholesale business in Canada's growing bond investments. The only connection between these institutions and the chartered banks is that frequently they may purchase an issue from a corporation and then obtain funds from one of the banks to carry this until it has been marketed, which is usually a period of short duration. Of course, the chartered banks themselves sell bonds, but usually those issued by the Dominion, the Provinces or some political sub-division or by a railroad. They do not have subsidiary investment houses such as typified by the National City Company or the Chase Securities Corporation in New York City.

This concludes our preliminary survey, necessarily very brief, of the whole of Canada's financial organization. The next section will be devoted to a more detailed analysis of the present Bank Act and of the operations of the chartered banks.

[63] For the information contained in this section the author is indebted to Mr. H. M. Cameron. In addition to concerns strictly Canadian, the National City Company and Harris Forbes are quite active in Canada.

THE COMMERCIAL BANKING STRUCTURE

THE BANK ACT. The legal basis for the commercial banking structure in Canada is to be found in Section 91 of the British North America Act of 1867, which conferred exclusive authority in the matter of incorporating and regulating banks of issue on the Dominion Parliament. In pursuance of these powers the first Bank Act was passed in 1871 which prescribed the manner of incorporation and general powers of the chartered banks and granted them charters of ten years' duration. As mentioned before, this grant of life has led to the decennial revisions of the Bank Act, which have taken place in 1881, 1891, 1901, and 1913. The latest revision was assented to on June 30, 1923 and amended in some important particulars on July 19, 1924.[64] This Act consists of 160 sections or clauses which may be divided into the following classifications:

A. Interpretation and application	Sections 1– 7
B. Incorporation of new banks	8–17
C. Internal regulation as regards:	18–60
Capital stock	
Shares and calls	
Transfer and transmission of shares of stock	
Shares subject to trusts	
Annual and special statements	
Audits	
Government inspection	
Dividends and reserves	
D. Note issues	61– 74
E. Business and powers of the banks	75– 98
F. Purchase of another bank's assets	99–111
G. Returns to the Government	112–114
H. Insolvencies, Liquidations, etc.	115–131
I. Offenses and Penalties	131–163

This statute including the 1924 amendment is a lengthy document of some 90 pages, which makes it a close rival in size to the Na-

64 For an account of the development of the Bank Act, see pp. 298–317.

tional Bank Act of the United States, and as a matter of passing interest, it is the most complete and detailed general banking law existing in any part of the British Empire.

INCORPORATION OF A BANK. While the Bank Act specifies in considerable minutiæ the procedure to be followed in the establishment of a bank, and lays down rather detailed rules governing its powers and rights, the charter itself can be conferred only upon the passage of a special act by Parliament. Hence the term chartered bank. The special act of incorporation is introduced as a private bill, is subject to three readings in both the House of Commons and the Senate, and must receive the approval or assent of the Governor-General. The bill must give:

(a) The name of the proposed bank;

(b) The names of the incorporators, who in the ordinary course would become the provisional directors and who must not number less than five;

(c) The proposed capital, which must not be less than $500,000, to be divided into shares of $100 each, which bear double liability;

(d) The location of the head office.

After its second reading, the bill is referred to the banking committee in each chamber, upon whose report its fate generally depends.

The method of bank incorporation in Canada is strikingly different from the procedure followed in the majority of the United States where, aside from such exceptions as the Federal Reserve Banks, the Federal Land Banks, and the Bank of North Dakota, banks receive their charters not by special legislation, but, after complying with a general banking law, from the state superintendent or commissioner of banks or from the Comptroller of the Currency in Washington, in the case of the National Banks. Delaware is one exception to this general rule, as state banks there are still incorporated by special act. Generally speaking, however, banks are incorporated under a general law and receive their charters from the official to whom its administration has been delegated. This official in the case of the Federal Govern-

ment and most states makes a more or less careful examination into the need for a new bank, the character of management, and the prospects of success if well managed. In a few states, however, the banking commissioner is given no discretionary power and cannot legally refuse a charter if the incorporators have complied with the law, no matter what the success of the bank may likely be or the character of the organizers. The lack of such discretionary power as well as the lax methods of bank administration and supervision in certain states, even where the Superintendent is permitted to exercise his judgment, have been among the factors responsible for the establishment, during the war and post-war inflation period, of thousands of crossroads and fly-by-night concerns, with a consequent overbanked condition in some parts of the nation. Thus North Dakota in 1920 had one state bank for every 916 persons, Kansas one for every 1598, Nebraska one for every 1290, South Dakota one for every 1142, Iowa one for every 1786, as compared with New York, for example, where there was one bank for every 31,000 persons, California one for every 8,287 and New Hampshire one for every 31,648 persons.[65] Even allowing for the lessened density of population in the Middle Western states, there is no doubt but that these sections were overbanked, and that this condition in part resulted from the lax supervision over bank incorporation. And it is precisely there that the bank failure epidemic has raged the past six years. The mushroom banks could not withstand the depression. One of the lessons learned is the need for a more rigid supervision over bank incorporation. This would not mean the adoption of the Canadian requirement of a special act of incorporation, but it does mean the granting of discretionary power to state bank commissioners to refuse charters, as well as the raising of standards for new banks, and the elimination of political influence. In some states banking supervision has reached a very high level, but in many the subject merits serious study and consideration.

The chartered banks, operating under the Bank Act at the present time, listed in the order of their establishment are:

[65] Pp. 62–63 of *Hearings before a Subcommittee of the Committee on Banking and Currency,* United States Senate, Sixty-Ninth Congress, First Session, on S. 1782 and H. R. 2. Washington: Government Printing Office, 1926.

Name of Bank	Location of Head Office	Date Established
Bank of Montreal	Montreal, Que.	1817
Bank of Nova Scotia	Halifax, N. S.	1832
Bank of Toronto	Toronto, Ont.	1855
Banque Provinciale du Canada (successor of Banque Jacques Cartier)	Montreal, Que.	1861
Canadian Bank of Commerce	Toronto, Ont.	1867
Royal Bank of Canada (successor of Merchants Bank of Halifax)	Montreal, Que.	1869
Dominion Bank	Toronto, Ont.	1871
Banque Canadienne Nationale (formerly Banque d'Hochelaga)	Montreal, Que.	1874
Imperial Bank of Canada	Toronto, Ont.	1875
Weyburn Security Bank	Weyburn, Sask.	1911

As will be observed, the head office of each of these banks[66] is located either in Toronto or Montreal with the exception of the Bank of Nova Scotia and the Weyburn Security Bank. In the case of the former, the general manager's office is in Toronto, where it was moved in 1900 to bring about a closer telegraphic contact with the New York and Chicago money markets and with the rest of Canada. The head office is still retained in Halifax as a concession to local pride. The Weyburn Security Bank with its head office in Weyburn, Sask., is a comparatively small concern operating in one province and serving a more or less restricted clientele. With this one exception, then, two cities house the main operating offices of all the chartered banks. To those interested in banking technique, it may be noted in passing that the head office of a Canadian bank does not itself engage in receiving deposits or in making loans. Even the banking office, if such exists, in the building in which the head office is located is considered as a branch. The head office, in short, formulates policies, establishes branches, passes on loans of over a certain size, makes investments, makes plans for new and altered buildings and their equipment, purchases stationery for branches,

[66] Rather elaborate historical accounts of their own development have been prepared by the Canadian Bank of Commerce, the Bank of Montreal, the Bank of Nova Scotia, and the Dominion Bank. In passing it might be noted that the original charters of the Bank of Nova Scotia and the Bank of Montreal were quite similar to the charters of the first and second Banks of the United States, and that these were themselves based on recommendations of Alexander Hamilton.

designs new forms, transfers and promotes employees, acts as a center for the purchase and sale of foreign exchange, etc. It is the nerve center of each banking organization, which might include as many as 900 branches at home and abroad, as in the case of the Royal Bank.

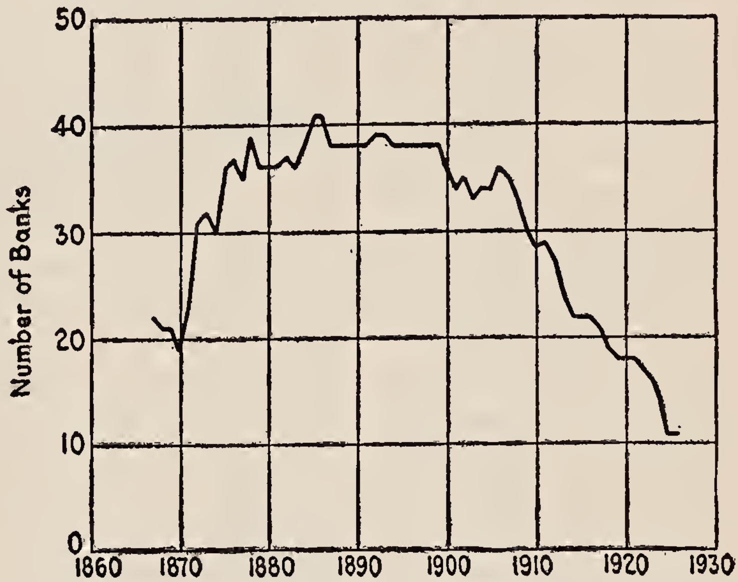
TENDENCY TOWARD FEWER AND LARGER BANKS. The eleven chartered banks now serving the commercial credit needs of Canadian business, agriculture, and commerce represent the survival of a much larger number of institutions formerly operating in the Dominion. The tendency toward fewer and larger banks has been perhaps the outstanding characteristic of the banking structure of Canada within recent years. Not that the disappearance of banking institutions is a condition peculiar to the Dominion, for the same condition has manifested itself also in other countries. So aroused, indeed, did public opinion become in England over this problem, that a Treasury Committee [67] was appointed to investigate whether amalgamations were prejudicial to the interests of the industrial and mercantile community and whether legislation might not be needed to cope with the issue.

Nor must it be thought that the amalgamation movement has been confined solely to branch banking countries such as Canada and England, in fact, in the United States, a country with a unit independent type of banking system, the number of bank mergers and consolidations beginning in 1918 increased rapidly. This movement embraced all types of banks, national and state banks, trust companies, savings banks and private banks.[68] In discussing, then, the Canadian experience it is important to bear in mind that the tendency to fewer banks is world-wide and *is not a phenomenon whose appearance is due to the type of banking system existing there.* The same trend, with differences in degree of course, has been experienced in other countries and with other types of banking organization.

67 *Report of the Treasury Committee on Bank Amalgamations.* London: published by His Majesty's Stationery Office, 1918. For a thorough study of this problem, see *The Amalgamation Movement in English Banking, 1825–1914,* by Joseph Sykes, published by P. S. King & Son, Ltd., London, 1926.

68 See p. 106 of *Hearings before a Subcommittee of the Committee on Banking and Currency,* United States Senate, 69th Congress, 1st Session, on S. 1782 and H. R. 2.

Statistics of Bank Disappearance. Turning now to the statistics of bank disappearance in Canada, as shown in the accompanying chart, the number of banks reporting to the Government reached a maximum of 41 in the years 1885 and 1886. In 1900 there were still 36 in existence, while by 1915, there were but 22 and at the present time but 10. From 1900 to date there has been



Number of Chartered Banks Reporting to the Canadian Government as of December 31st of Each Year.

a decline of 73%, and since 1915, 55%. Of the banks disappearing since 1915, six lost their identity through the years 1923, 1924 and 1925.[69]

Additional and more detailed statistical evidence of bank disappearance in Canada is given in the following table which presents the number of amalgamations, failures and voluntary liquidations yearly since 1900, and it should be remembered that these were the years of Canada's greatest economic growth:

[69] Source of data: R. M. Breckenridge, *The History of Banking in Canada,* issued under the auspices of the National Monetary Commission, Appendix IV, pp. 287–288, and Returns of the Chartered Banks. For a discussion of the bank mergers through these years, see Appendix D, "Branch Banking Abroad," of Bank Inquiry, 1925, filed by Dr. H. Parker Willis with the United States Senate Committee on Banking and Currency in February of 1926.

STATISTICS OF BANK DISAPPEARANCE

Years	Number of Banks Reporting to Government as of Dec. 31	Number of Amalgamations	Number of Failures	Number of Voluntary Liquidations
1868	21	2	1	
1870	19	1		
1875	36	1		
1883	36	1	1	
1900	36	1		
1901	34	1		
1902	35	1		
1903	33	3		
1904	34	1		
1905	34	1	1	
1906	36	1		1
1907	35	1		
1908	33	2	2	1
1909	30	1		
1910	28	1	2	
1911	29	1		
1912	27	2		
1913	24	2		
1914	22	1	1	
1915	22	0		
1916	22	0		
1917	21	1		
1918	19	2		
1919	18	1		
1920	18	0		
1921	18	0		
1922	17	1		
1923	16	0	1	
1924	14	2		
1925	11	3		
1926	11	0		
1927	11	0		
1928	10	1		

CONCENTRATION OF BANKING FUNDS. The precipitous decline in the number of banks in Canada has led to an intense concentration of banking funds, to an inequality in the size of banks not characteristic of the banking system of the 90's. This fact is brought out in the table shown on page 330–33 which lists the

chartered banks in existence in 1895, and since then by five-year periods, giving the resources of each and the percentage which these have to the total banking power of Canada.[70] It will be noticed that in 1895 the Bank of Montreal with 17.56% of the whole had the relatively largest resources of any chartered bank. The Canadian Bank of Commerce followed with 9.04 per cent. On July 30, 1927 the Bank of Montreal had 25.98% of the resources of all banks, the Royal Bank 26.09%, the Canadian Bank of Commerce 16.54%. These three banks had 68.61% of the commercial banking resources of Canada. And, if we add the Bank of Nova Scotia, four banks had 77% of the total banking resources, leaving the other seven banks with but 23%. The bank which has shown the greatest *relative* growth in the period from 1895–1926 has been the Royal, with Nova Scotia second, Commerce third, and Montreal fourth.

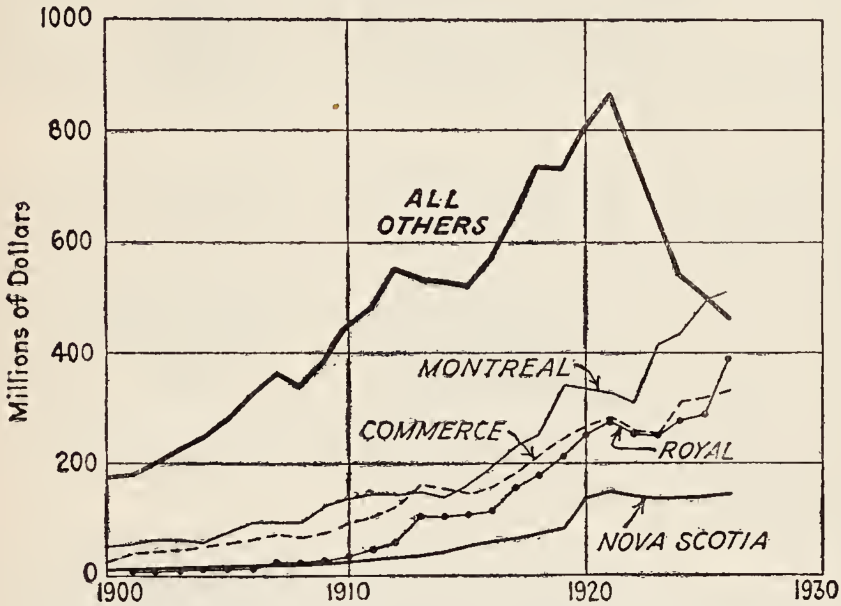
The disappearance of banks, through merger and failure, has had as a significant by-product, then, the creation of institutions of disproportionate power and competitive strength. Not alone has this resulted from the large number of consolidations entered into by the "big four," but there was temporarily at least an actual transference of deposits to the larger banks or alternative institutions growing out of an irrational but nevertheless widespread fear of the instability of the smaller banks, following the failure of the Home Bank.[71] This concentration of power is illustrated by the chart shown on the opposite page which compares the trend in the deposits of the four largest banks with the deposits of the others.[72]

[70] It might be noted that such a condition leads inevitably into a kind of Government guarantee of banking. The Canadian Government could not allow any of the larger banks to fail, for such would be most disastrous to the entire economic structure of the country. The Government would have to lend support if such an institution were approaching insolvency, as indeed it was called upon to do on one occasion before the war.

[71] See p. 55 of *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924. There has also been a transference of deposits to trust companies and the Provincial savings banks. This was but a temporary phenomenon following the Home Bank failure. Comparative data for 1927 and 1923 show that the small banks, so called, have increased their deposits relatively more than the large banks.

[72] Source of data: Returns of the Chartered Banks. The data are as of January 31 of each year excepting in the case of 1926, when they are as of August 31. The deposits include deposits by the public, payable on demand

Reasons for Fewer and Larger Banks. Failures and mergers have accounted for all but a few of the banks losing their identity. This is clearly shown in the table on pp. 334–7, prepared



Fluctuations in the Deposits of the Four Leading Chartered Banks Compared with the Deposits of the Others

by Mr. H. C. McLeod, which gives the names of the banks disappearing, the reasons for their disappearance, and the number of years of independent existence: [73]

---

in Canada, and deposits by the public payable after notice or on a fixed day in Canada.

[73] This table was prepared by Mr. McLeod shortly before his death and contains much information which he alone possessed.

Date →		July 31, 1895		July 31, 1900		July 31, 1905		July 31, 1910	
Number of Bank	Name of Bank	Total Resources of each Bank	Percent of Resources of All Banks %	Total Resources of each Bank	Percent of Resources of All Banks %	Total Resources of each Bank	Percent of Resources of All Banks %	Total Resources of each Bank	Percent of Resources of All Banks %
1	Bank of Toronto	$15,781,826	5.01	$19,492,277	4.07	$30,310,396	3.96	$ 47,648,751	3.94
2	Canadian Bank of Commerce	28,516,874	9.04	47,545,812	9.93	92,570,895	12.08	151,622,210	12.52
3	Dominion Bank	14,501,721	4.60	21,280,951	4.45	39,646,687	5.17	60,586,656	5.00
4	Ontario Bank	6,931,677	2.20	9,551,030	2.00	15,555,634	2.03	....	.....
5	Standard Bank	7,713,195	2.45	10,385,403	2.17	16,579,120	2.16	32,093,637	2.65
6	Imperial Bank of Canada	14,227,848	4.51	20,278,807	4.24	34,281,236	4.47	59,326,608	4.90
7	Traders Bank of Canada	5,822,051	1.85	9,385,430	1.96	23,090,968	3.01	43,689,007	3.61
8	Bank of Hamilton	8,646,002	2.74	14,967,441	3.13	28,902,257	3.77	39,751,328	3.28
9	Bank of Ottawa	7,970,801	2.53	15,717,078	3.28	23,966,740	3.13	40,277,555	3.33
10	Western Bank of Canada	1,971,645	.63	2,681,780	.56	5,414,375	.71	....	.....
11	Bank of Montreal	55,366,476	17.56	93,158,262	19.46	147,832,814	19.29	233,992,326	19.32
12	Bank of British North America	11,898,398	3.77	40,277,408	8.41	40,840,273	5.33	55,463,740	4.58
13	Banque Jacques Cartier	4,751,869	1.51	....	.....	....	.....	....	.....
14	Banque Ville Marie	1,753,470	.56	....	.....	....	.....	....	.....
15	Banque d'Hochelaga	5,794,776	1.84	9,669,583	2.02	15,162,786	1.98	22,386,126	1.85
16	Molson's Bank	14,694,778	4.66	20,054,327	4.19	30,050,348	3.92	42,269,512	3.49
17	Merchants Bk. of Canada	23,928,378	7.59	29,703,797	6.20	42,349,010	5.53	66,328,590	5.48
18	Quebec Bank	11,119,835	3.53	12,202,080	2.55	13,501,682	1.76	15,556,236	1.28
19	Union Bank of Canada	7,427,829	2.36	10,916,828	2.28	23,265,208	3.04	43,783,494	3.62
20	Banque de St. Jean	388,332	.12	709,770	.15	756,418	.10	....	.....
21	Banque de St. Hyacinthe	1,590,270	.50	1,682,944	.35	1,431,031	.19	....	.....
22	Eastern Townships Bank	6,266,509	1.99	9,394,661	1.96	16,868,550	2.20	23,942,292	1.98
23	Banque du Peuple	8,663,308	2.75	....	.....	....	.....	....	.....
24	Banque Nationale	4,763,532	1.51	6,856,111	1.43	10,676,638	1.39	16,821,508	1.39
25	Bank of Nova Scotia	11,970,948	3.80	20,561,018	4.30	32,380,012	4.23	49,815,007	4.11

26	Merchants Bank of Halifax*	9,275,895	2.94	18,337,248	3.83	....	.....	....	.....
27	Peoples Bank of Halifax	3,036,365	1.00	3,557,764	.74	....	.....	....	.....
28	Union Bank of Halifax	2,778,641	.88	5,596,477	1.17	11,220,969	1.46	15,289,668	1.26
29	Halifax Bkng. Company	3,662,812	1.16	4,939,500	1.03				
30	Bank of Yarmouth	1,043,026	.33	1,015,056	.21	....	.....	....	.....
31	Exchange Bank of Yarmouth	471,627	.15	578,695	.12	....	.....	....	.....
32	Commercial Bk. of Windsor	922,687	.29	1,523,855	.32	....	.....	....	.....
33	Bank of New Brunswick	3,380,944	1.07	3,844,431	.80	5,714,651	.75	10,129,360	.84
34	Peoples Bank of New Brunswick	760,027	.24	913,924	.19	974,594	.13	....	.....
35	St. Stephen's Bank	597,933	.19	698,858	.15	858,045	.11	....	.....
36	Bank of British Columbia	6,310,638	2.00	7,832,209	1.64	....	.....	....	.....
37	Summerside Bank	173,148	.05	271,834	.06	....	.....	....	.....
38	Merchants Bank of Prince Edward Isl.	447,324	.14	972,029	.20	2,014,280	.26	....	.....
39	Banque Provinciale du Can.	....	.....	2,160,257	.45	4,768,608	.62	8,761,394	.72
40	Royal Bank of Canada*	....	.....	....	.....	23,945,814	4.43	75,427,987	6.23
41	Sovereign Bk. of Canada	....	.....	....	.....	12,966,809	1.69	6,209,484	.51
42	Metropolitan Bk. of Canada	....	.....	....	.....	5,556,373	.73	10,300,034	.85
43	Crown Bank of Canada	....	.....	....	.....	2,502,506	.33	....	.....
44	Home Bank of Canada	....	.....	....	.....	362,738	.05	10,051,548	.83
45	Northern Crown Bank of Canada	....	.....	....	.....	....	.....	15,325,738	1.27
46	Sterling Bank of Canada	....	.....	....	.....	....	.....	7,278,760	.60
47	United Empire Bank of Canada	....	.....	....	.....	....	.....	3,702,474	.31
48	Farmers Bank of Canada	....	.....	....	.....	....	.....	2,662,141	.22
49	Bank of Vancouver	....	.....	....	.....	....	.....	361,509	.03
50	Weyburn Security Bank	....	.....	....	.....	....	.....	....	.....
51	Banque Canadienne Nationale	....	.....	....	.....	....	.....	....	.....
	Totals	$315,323,415	100.05	$478,714,935	100.00	$766,318,465	100.01	$1,210,854,680	100.00

Source of data: Returns of the Chartered Banks.

Date →		July 31, 1915		July 31, 1920		July 31, 1925		July 30, 1927	
Number of Bank	Name of Bank	Total Resources of each Bank	Percent of Resources of All Banks %	Total Resources of each Bank	Percent of Resources of All Banks %	Total Resources of each Bank	Percent of Resources of All Banks %	Total Resources of each Bank	Percent of Resources of All Banks %
1	Bank of Toronto	$64,632,250	4.15	$102,543,507	3.32	$102,465,225	3.77	$122,415,365	4.13
2	Canadian Bank of Commerce	230,248,550	14.77	455,938,521	14.75	469,268,542	17.26	489,849,138	16.54
3	Dominion Bank	76,605,397	4.91	140,164,643	4.53	114,430,035	4.21	128,503,643	4.34
4	Ontario Bank	.....	.....	.....	.....	.....	.....	.....	.....
5	Standard Bank	48,534,483	3.11	92,832,114	3.00	82,559,509	3.04	92,649,738	3.13
6	Imperial Bk. of Canada	75,809,567	4.86	130,401,317	4.22	117,101,669	4.31	133,302,821	4.50
7	Traders Bk. of Canada	.....	.....	.....	.....	.....	.....	.....	.....
8	Bank of Hamilton	44,980,715	2.89	86,590,769	2.80	.....	.....	.....	.....
9	Bank of Ottawa	52,051,407	3.34	.....	.....	.....	.....	.....	.....
10	Western Bk. of Canada	.....	.....	.....	.....	.....	.....	.....	.....
11	Bank of Montreal	270,181,285	17.33	562,946,097	18.21	703,378,315	25.88	769,180,668	25.98
12	Bank of British North America	60,867,854	3.90	.....	.....	.....	.....	.....	.....
13	Banque Jacques Cartier	.....	.....	.....	.....	.....	.....	.....	.....
14	Banque Ville Marie	.....	.....	.....	.....	.....	.....	.....	.....
15	Banque d'Hochelaga	32,658,822	2.10	74,601,770	2.41	.....	.....	.....	.....
16	Molson's Bank	51,286,726	3.29	91,096,029	2.95	.....	.....	.....	.....
17	Merchants Bank of Canada	85,030,790	5.45	198,307,602	6.41	.....	.....	.....	.....
18	Quebec Bank	19,987,568	1.28	.....	.....	.....	.....	.....	.....
19	Union Bank of Canada	80,111,853	5.14	164,890,610	5.33	110,752,904	4.07	.....	.....
20	Banque de St. Jean	.....	.....	.....	.....	.....	.....	.....	.....
21	Banque de St. Hyacinthe	.....	.....	.....	.....	.....	.....	.....	.....
22	Eastern Townships Bk.	.....	.....	.....	.....	.....	.....	.....	.....
23	Banque du Peuple	.....	.....	.....	.....	.....	.....	.....	.....
24	Banque Nationale	27,383,197	1.76	69,581,236	2.25	.....	.....	.....	.....
25	Bank of Nova Scotia	98,200,594	6.30	239,490,599	7.75	228,866,096	8.42	248,387,329	8.39
26	Merchants Bank of Halifax*	.....	.....	.....	.....	.....	.....	.....	.....

27	Peoples Bk. of Halifax	....	.....	....	.....	....	.....	....	.....
28	Union Bank of Halifax	....	.....	....	.....	....	.....	....	.....
29	Halifax Bkng. Company	....	.....	....	.....	....	.....	....	.....
30	Bank of Yarmouth	....	.....	....	.....	....	.....	....	.....
31	Exchange Bank of Yarmouth	....	.....	....	.....	....	.....	....	.....
32	Commercial Bank of Windsor	....	.....	....	.....	....	.....	....	.....
33	Bank of New Brunswick	....	.....	....	.....	....	.....	....	.....
34	Peoples Bank of New Brunswick	....	.....	....	.....	....	.....	....	.....
35	St. Stephen's Bank	....	.....	....	.....	....	.....	....	.....
36	Bank of British Columbia	....	.....	....	.....	....	.....	....	.....
37	Summerside Bank	....	.....	....	.....	....	.....	....	.....
38	Merchants Bank of Prince Edward Isl.	....	.....	....	.....	....	.....	....	.....
39	Banque Provinciale du Can.	12,708,850	.82	39,077,524	1.26	41,089,411	1.51	49,841,687	1.68
40	Royal Bk. of Canada*	187,661,665	12.04	587,195,988	18.88	618,738,994	22.76	772,473,639	26.09
41	Sovereign Bank of Canada	....	.....	....	.....	....	.....	....	.....
42	Metropolitan Bank of Canada	....	.....	....	.....	....	.....	....	.....
43	Crown Bank of Canada	....	.....	....	.....	....	.....	....	.....
44	Home Bank of Canada	13,306,404	.85	26,732,456	.86	....	.....	....	.....
45	Northern Crown Bank of Canada	15,869,521	1.02	....	.....	....	.....	....	.....
46	Sterling Bk. of Canada	9,255,428	.59	25,440,739	.82	....	.....	....	.....
47	United Empire Bank of Canada	....	.....	....	.....	....	.....	....	.....
48	Farmers Bank of Canada	....	.....	....	.....	....	.....	....	.....
49	Bank of Vancouver	....	.....	....	.....	....	.....	....	.....
50	Weyburn Security Bank	1,497,353	.10	3,842,990	.12	4,835,085	.18	6,453,518	.22
51	Banque Canadienne Nationale	....	.....	....	.....	124,753,489	4.59	147,994,969	5.00
	Totals	$1,558,870,279	100.00	$3,091,674,511	99.98	$2,718,239,274	100.00	$2,961,052,515	100.00

*Merchants Bank of Halifax was rechartered as the Royal Bank of Canada on Jan. 1, 1901

CANADIAN BANKS PASSING 1817–1926

Opened	Closed	Name	Capital $	Reserve $	Peak of Book Value $	Assets $
1819	1822	Bank of Kingston	$ 48,000	.....	......	......
1818	1831	Bank of Canada	......	.....	......	......
1834	1838	Agricultural Bank	......	.....	......	28,000
1835	1838	Bank of the People (Hincks)	200,000	.....	......	......
1835	1840	Niagara Suspension Br. Bk.	......	.....	......	......
1835	1841	The Farmers Bank	185,000	.....	......	248,000
1855	1857	Zimmerman Bank	300,000	.....	......	......
1858	1859	International Bank	......	.....	......	......
1858	1859	Colonial Bank of Canada	......	.....	......	......
1834	1862	Westmorland Bank, N. B.	300,000	.....	......	......
1834	1862	Central Bank of New Brunswick	500,000	.....	......	......
1825	1865	Charlotte County Bank, St. Andrews	60,000	.....	......	......
1821	1866	Bank of Upper Canada	3,266,666	.....	......	7,000,000
1832	1867	Commercial Bank — Midland	4,000,000	.....	......	9,765,000
1835	1868	The Gore Bank	809,280	100,000	909,280	2,741,062
1834	1868	Commercial Bank of New Brunswick	546,400	.....	......	1,222,454
1872	1873	Bank of Acadia	100,000	.....	......	213,346
1855	1875	Niagara District Bank	750,000	.....	......	2,800,000
1871	1875	Metropolitan Bank, Montreal	916,180	.....	......	2,324,053
1873	1875	St. Lawrence Bank, Toronto	692,702	.....	......	......
1874	1876	Stadacona Bank, Quebec	990,890	.....	......	......
1833	1879	City Bank, Montreal	1,482,400	130,000		4,351,768
1860	1879	Royal Canadian Bank, Toronto	2,270,081	.....	......	3,384,154
1876	1879	Consolidated Bank, Montreal				
1865	1879	Mechanics Bank, Montreal	472,245	.....	......	1,500,000
1872	1879	Bank of Liverpool	370,000	.....	......	......
1856	1881	Bank of Prince Edward Island	120,000	45,000	......	1,108,000
1864	1883	Union Bank of P. E. Island	162,222	65,000	227,222	900,000
1872	1883	Exchange Bank of Canada	1,000,000	300,000	......	3,779,493
1872	1887	Maritime Bank of Canada	760,900	60,000	......	1,714,918
1874	1887	Pictou Bank, N. S.	250,000	.....	......	......
1884	1887	Central Bank of Canada	500,000	45,000	......	3,231,518
1884	1887	Bank of London, Canada	241,000	.....	......	1,500,000
1874	1888	Federal Bank of Canada	3,000,000	150,000	......	......
1862	1892	Rustics Bank	8,000	.....	......	......
1885	1893	Commercial Bank of Manitoba	552,650	50,000	......	1,954,167
1835	1895	La Banque du Peuple	1,600,000	600,000	......	9,533,537
1872	1895	Banque Ville Marie	716,920	10,000	......	2,267,516
1861	1899	Banque Jacques Cartier	2,000,000	.....	......	......
1862	1901	Bank of British Columbia	2,920,000	1,338,333	4,258,334	15,661,521
1866	1901	Summerside Bank	48,667	27,193	75,860	292,351
1864	1902	Commercial Bank of Windsor	350,000	60,000	410,000	1,954,167
1825	1903	Halifax Banking Company	600,000	500,000	1,100,000	6,025,479
1869	1903	Exchange Bank of Yarmouth	264,390	.....	......	680,303
1859	1905	Bank of Yarmouth	300,000	35,000	......	820,145

ARRANGED ACCORDING TO YEAR OF CLOSING

Shareholders' Losses			Loss to Shareholders on all counts	Loss to Creditors	Independent Life: Years	Notes
Failed $	Absorbed $	Liquidated $	$	$		
48,000	......	.....	48,000	50,000	3	
.....	......	.....	......	......	13	
Total	......	.....	......	124,000	4	
.....	......	.....	......	......	3	Bought by Bank of Montreal
Total	......	.....	......	......	5	
Total	......	.....	......	......	6	
350,000	......	.....	350,000	88,000	2	
.....	......	.....	......	134,087	1	
.....	......	.....	......	99,878	1	
400,000	......	.....	400,000	......	28	Estimated figures. Creditors paid. Double liability enforced
500,000	......	.....	500,000	......	28	Estimated figures—Creditors paid
60,000	......	.....	60,000	......	40	
3,266,666	......	.....	3,266,666	1,300,000	45	
2,665,000	......	.....	2,665,000	......	35	Merchants Bank bought assets—losing heavily
465,000	......	.....	465,000	......	33	
495,000	......	.....	495,000	......	34	
130,000	......	.....	130,000	......	1	
.....	———	.....	......	......	20	
456,180	......	.....	456,180	......	4	
.....	191,452	.....	191,452	......	2	
.....	......	———	......	......	2	A voluntary liquidation
.....	1,590,451	.....	1,590,451	......	46	The City Bank and the Royal Canadian Bank —both insolvent—were merged into Consolidated Bank
.....	2,002,081	.....	2,002,081	......	19	
569,732	......	.....	569,732	180,000	14	
500,000	......	.....	500,000	......	7	
310,000	......	.....	310,000	......	25	
.....	64,888	.....	64,888	......	18	
1,650,000	......	.....	1,650,000	800,500	11	
1,082,800	......	.....	1,082,800	974,870	15	
.....	......	163,970	163,970	......	13	
.....	......	750,000	750,000	7,100	3	
80,000	......	.....	80,000	......	3	
.....	......	4,469,113	4,469,113	......	14	Total losses $4,517,277. A large sum was recovered from the President
.....	......	.....	......	......	30	Unable to obtain renewal of Charter
700,000	......	.....	700,000	......	8	
1,900,000	......	.....	1,900,000	1,718,284	60	
716,920	......	.....	......	1,341,601	23	
1,750,000	......	.....	......	......	38	Shareholders' interest sold for $250,000 —
.....	1,446,334	.....	1,446,334	......	29	
.....	———	.....	......	......	35	A small bank with a fine record
.....	50,425	.....	50,425	......	38	
.....	44,000	.....	44,000	......	78	
.....	......	.....	......	......	34	Bought by Bank of Montreal
335,000	......	.....	335,000	......	46	

CANADIAN BANKS PASSING 1817–1926

Opened	Closed	Name	Capital $	Reserve $	Peak of Book Value $	Assets $
1864	1905	Peoples Bank of Halifax	1,000,000	440,000	1,440,000	6,394,619
1859	1906	Ontario Bank	3,500,000	700,000	4,200,000	17,432,177
1871	1906	Merchants Bank of P. E. Isl.	350,400	331,000	681,400	2,036,272
1869	1907	Peoples Bank of New Brunswick	180,000	180,000	360,000	1,041,410
1873	1908	Banque de St. Hyacinthe	331,235	75,000	......	1,580,097
1873	1908	Banque de St. Jean	316,386	10,000	......	326,118
1901	1908	Sovereign Bank of Canada	4,000,000	1,250,000	......	19,218,746
1904	1908	Crown Bank, Toronto	957,435	95,750	......	......
1905	1908	Northern Bank, Winnipeg	1,239,961	121,538	......	......
1877	1909	Western Bank	555,000	350,000	905,000	5,949,307
1856	1910	Union Bank of Halifax	1,500,000	1,200,000	2,700,000	25,333,104
1836	1910	St. Stephen's Bank, N. B.	200,000	60,000	......	801,872
1906	1911	United Empire Bank	582,231	.....	......	......
1906	1910	The Farmers Bank	567,579	.....	......	2,616,683
1860	1912	Eastern Townships Bank	3,000,000	2,400,000	5,400,000	27,604,803
1885	1912	Traders Bank	4,480,000	2,552,750	7,032,750	51,245,937
1820	1913	Bank of New Brunswick	1,000,000	1,790,000	2,790,000	11,975,000
1911	1913	Banque Internationale du Canada	1,359,833	.....	......	2,841,415
1902	1914	Metropolitan Bank of Toronto	1,000,000	1,250,000	2,250,000	12,365,216
1910	1914	Bank of Vancouver	445,188	.....	......	1,532,786
1818	1917	Quebec Bank	2,735,000	1,308,675	4,043,675	20,296,375
1835	1918	Bank of British North America	4,866,667	3,017,333	7,884,000	78,251,952
1908	1918	Northern Crown Bank	2,851,718	350,000	3,201,718	27,819,291
1875	1919	Bank of Ottawa	4,000,000	5,000,000	9,000,000	66,451,484
1864	1922	Merchants Bank of Canada	10,500,000	9,450,000	19,950,000	182,004,625
1855	1923	Molson's Bank	4,000,000	5,000,000	9,000,000	66,653,901
1872	1923	Bank of Hamilton	5,000,000	4,850,000	9,850,000	67,904,128
1907	1923	Home Bank of Canada	1,960,591	550,000	......	27,404,700
1860	1924	Banque Nationale	2,999,700	2,200,000	5,199,700	49,870,951
1865	1925	Union Bank of Canada	8,000,000	6,000,000	14,000,000	130,922,739
1905	1925	Sterling Bank of Canada	1,235,000	500,000	1,735,000	20,845,201

Compilation of losses of Canadian bank shareholders and creditors is rendered difficult by the ception ought to be available and free are without information on important happenings of the liquidations of failed banks.

Losses to shareholders of failed, absorbed or liquidated banks, above computed consist of loss to Reserve Funds; and double liability to the percentage of capital ordinarily collectible. Losses loss through which cannot be estimated.

The generally accepted definition of bank failure has been restricted; otherwise the list of *Capital that has resulted in loss of identity of the Bank.*

H. C. Mc Leod,
August, 1926.

ARRANGED ACCORDING TO YEAR OF CLOSING (*Continued*)

Shareholders' Losses			Loss to Share-holders on all counts	Loss to Creditors	Inde-pendent Life: Years	Notes
Failed $	Absorbed $	Liqui-dated $	$	$		
.....	618,000	.....	618,000	......	41	
.....	......	4,191,000	......	Not publ'ed	47	
.....	82,776	.....	82,776	......	35	Including losses 1878 and Directors' contributions
.....	......	.....	......	......	38	Bought by Bank of Montreal
334,145	......	.....	334,145	400,000	35	Estimated. Information not published
326,386	......		326,386	340,000	35	
.....	....	7,600,000	......	3,300,000	7	Particulars of losses are not available to the public. Estimated from reliable data
.....	......	.....	......	......	4	
.....	......	.....	......	......	3	
.....	......	.....	......	......	32	
.....	182,000	.....	182,000	......	54	
260,000	......	.....	260,000	......	74	
.....	——	.....	....	......	5	Absorbed by Union Bank of Canada
800,000	......	.....	800,000	1,400,000	4	Losses are estimated. Information not published
.....	——	.....	......	......	52	Absorbed by Can. Bank of Commerce
.....	——	.....	......	......	27	Absorbed by Royal Bk.
.....	——	.....	......	......	93	Absorbed by Bank of Nova Scotia
.....	......	.....	......	......	2	Loss included with Home Bank
.....	......	.....	......	......	12	Absorbed by Bank of Nova Scotia
600,000	......	.....	600,000	300,000	4	Losses estimated. No iuformation available to the public
.....	......	.....	......	......	99	
.....	1,734,000	.....	1,734,000	......	83	
.....	675,118	.....	675,118	......	10	Absorbed by Royal Bk.
.....	......	.....	......	......	44	Ottawa Shareholders receive $512,000 dividends yearly from Bank of Nova Scotia instead of $480,000 under former conditions
.....	11,266,443	.....	11,266,443	......	58	Including loss to shareholders in 1878
.....	3,266,666	.....	3,266,666	......	68	
.....	......	.....	......	......	51	Absorbed by C. B. of C. by exchange of shares
2,500,000	......	.....	2,500,000	11,000,000	16	In course of liquidation Govt. seemingly admits liability to creditors
.. ..	2,199,700	.....	2,199,700	......	64	The Government of Quebec was impelled to deposit $15,000,000 bonds, the amount to be payable out of future profits
.....	6,800,000	.....	6,800,000	....	60	Including loss of Capital funds in 1886
.....	417,000	.....	417,000	....	20	
			58,798,326	23,558,320		

lack of records. Even the Finance Department of Canada, where details of banking from its in-
recent past, and no means are taken to inform the people regarding the process of important

or impairment of: Capital reported as paid in during the Bank's life; profits reported as passed
to creditors are prone to be under stated — through sacrificing of claims at low figures — the

failures would be lengthened. The definition of "failure" herein adopted is — *Impairment of*

Bank Mergers. In Mr. McLeod's table 76 banks are listed as disappearing either through failure or absorption by other institutions. While bank failures as a cause for fewer banks forms a large topic by itself and will be discussed in a later section,[74] the subject of mergers may appropriately be treated now in the course of our discussions of the Bank Act, to which Sections 99–111 are devoted, but before proceeding to do this, the following table giving the names of the purchasing and absorbed banks is inserted as a matter of historical interest.[75]

BANK ABSORPTIONS IN CANADA SINCE 1867

Purchasing Bank	Bank Absorbed	Date
Bank of Montreal	Exchange Bank, Yarmouth, N. S.	Aug. 13, 1903
	Peoples' Bank of Halifax, N. S.	June 27, 1905
	Ontario Bank	Oct. 13, 1906
	Peoples' Bank of New Brunswick	April 15, 1907
	Bank of British North America	Oct. 12, 1918
	Merchants Bank	Mar. 20, 1922
	Molsons Bank	Jan. 20, 1925
Canadian Bank of Commerce	Gore Bank	May 19, 1870
	Bank of British Columbia	Dec. 31, 1900
	Halifax Banking Company	May 30, 1903
	Merchants Bank of P. E. I.	May 31, 1906
	Eastern Townships Bank	Feb. 29, 1912
	Bank of Hamilton	Dec. 31, 1923
Bank of Nova Scotia	Union Bank of P. E. I.	Oct. 1, 1883
	Bank of New Brunswick	Feb. 15, 1913
	The Metropolitan Bank	Nov. 14, 1914
	Bank of Ottawa	April 30, 1919
Royal Bank of Canada	Union Bank of Halifax	Nov. 1, 1910
	Traders Bank of Canada	Sept. 3, 1912
	Quebec Bank	Jan. 2, 1917
	Northern Crown Bank	July 2, 1918
	Union Bank of Canada	Aug. 31, 1925
Imperial Bank of Canada [1]	Niagara District Bank	June 21, 1875
Standard Bank of Canada [76]	Western Bank of Canada	Feb. 13, 1909
	Sterling Bank of Canada	Dec. 31, 1924
Banque d'Hochelaga	Banque Nationale	April 30, 1924
Bank of New Brunswick	Summerside Bank	Sept. 12, 1901

[74] See pp. 478–484.

[75] Source: *The Canada Year Book*, 1925, p. 842. The purchasing banks named in latter part of table are no longer in business. Dates given since 1900 are of the Orders-in-Council authorizing the absorption.

[76] Absorbed by Canadian Bank of Commerce on July 13, 1928.

Merchants Bank of Canada	Merchants Bank	Feb. 22, 1868
	Commercial Bank of Canada	June 1, 1868
Union Bank of Halifax	Commercial Bank of Windsor	Oct. 31, 1902
Northern Crown Bank	The Northern Bank	July 2, 1908
	Crown Bank of Canada	July 2, 1908
Union Bank of Canada	United Empire Bank	Mar. 31, 1911
Home Bank of Canada	La Banque Internationale du Canada	April 15, 1913

Of the banks taken over since 1867, seven each have been absorbed by the Bank of Montreal, and the Bank of Commerce, four by the Bank of Nova Scotia, and five by the Royal Bank. These four institutions account for 23 out of the 34 banks absorbed since Confederation. This does not include the institutions absorbed by these 23 banks before they were merged with one of the "big four." When these are included the "big four" account for 31 out of 34 mergers.

Opposition to Mergers. Sections 99–111 of the Bank Act contain elaborate provisions governing bank mergers, the procedure to be followed and the legal liabilities of the shareholders. For the student of banking, the most significant provision probably is that requiring the consent of the Governor-in-Council, as recommended by the Minister of Finance and the Receiver General, before a merger may take place. This was inserted in the 1913 revision to appease those who feared that the rapidly declining number of banks would lead to the establishment of a "money trust." Vigorous opposition to further mergers was voiced in Parliament and in the Banking and Commerce Committee, both in 1913 and again in 1923, and even from time to time among some bankers.

The remarks of Mr. W. F. Maclean, one of the "radical" members of the Banking and Commerce Committee in 1923, typify the sentiments of many toward this problem: [77]

"I should like to ask the Minister of Finance whether in his opinion it is not in the interest of the public that there should be competition in banks as well as in all other organizations. The

[77] *House of Commons Debates*, June 20, 1923, p. 4135. See also *Proceedings of the Select Standing Committee on Banking and Commerce*, 1923, p. 893.

whole tendency is in the direction of mergers and I must say that I would look upon the movement with some degree of favour if we should see established a Bank of Canada. Such an institution would be a national bank, and more or less associated with smaller concerns. Something in that direction may be effected which would serve the interests of the public. Apparently, however, the tendency is to remove the competition that now exists in banking. Heretofore we have had a great many banks in this country serving the public, and when those desirous of getting accommodation cannot get service at one they may go to another."

Reasons for Mergers. Contrary to the implication carried in the address of Mr. W. F. Maclean, mergers have not come about as the result of sinister premeditations on the part of the banking community aiming toward a "money trust" or with the avowed object of stifling competition. While the merger movement may result in a money monopoly, and William Long Baker in his work, "Money Monopoly vs. the Community Dollar," believes that such has been the case, yet this was not the motivating factor in the movement. Mergers have in most cases resulted from the fact that a bank was rapidly approaching an insolvent condition or had reached a point where (perhaps through absence of aggressive management) it was unable to compete successfully with the larger institutions. The initiative for the mergers did not proceed from the large institutions but from the smaller banks aware of their approaching insolvency or inability to keep in the race. This point was stressed by both Mr. Maclean of Halifax, chairman of the Committee on Banking and Commerce, and by Mr. Fielding, the Minister of Finance, in addresses before the House of Commons in 1923.

Mr. Maclean spoke as follows: [78]

"We are dealing with a clause relating to the purchase of the assets of a bank. People designate this as a "merger," and this word has been made unpopular, being often unfairly and improperly used. Hon. gentlemen talk about a merger as if it were a thing that could be prevented. The Minister of Finance has stated the government's policy, which is a sound one, namely, that it is not disposed to consent to the merging of banks each of which oc-

[78] *House of Commons Debates*, June 20, 1923, p. 4138.

cupies a sound position merely for the sake of their being merged or for the sake of profit-making. But we must have in this act some provision whereby a bank may purchase the assets of another bank. Most mergers that have taken place in Canada were induced by the fact that the selling bank was in, or approaching, an insolvent position and the management were not disposed to carry on business further. It is in the interests of depositors and shareholders that there be a legal procedure to dispose of the assets of one to another."

In his address, Mr. Fielding cited the case of a bank merger taking place because the directors realized that the financial success of the institution was on the wane: [79]

" I have in mind the case of a merger which is not by any means recent, having occurred some years ago, in connection with which the bank that was absorbed was entirely solvent when turned over to the other bank — it was not insolvent, nor indeed was it on the edge of insolvency. The Directors, capable business men, reviewing the whole situation, saw however that the bank was on the decline, and that the day was coming when it could not be successful."

Undoubtedly, however, there has been rivalry between the big Canadian banks in the matter of bidding for banks which were willing and secretly anxious to merge, and this competition has made possible deals more favorable to the selling institution. This raises the question whether mergers have on the whole resulted favorably for the shareholders of the purchasing institutions and whether some bank stock would not now be more valuable if the same energy devoted to increasing size were devoted to concentrated and capable management. Personal ambitions may overlook at times, unwittingly perhaps, the ultimate good of the shareholders.

Attitude of the Bankers Toward Mergers. The bankers testifying before the Committee on Banking and Commerce of the House of Commons in 1923 took rather an extreme position. Not only had the mergers of the past, in their opinion, been most desirable but in all probability this tendency would continue and

[79] *House of Commons Debates,* June 20, 1923, p. 4139.

would be of increasing benefit to the country. It is true that the statements about to be quoted may not represent the concensus of opinion among all bankers, but they are of importance in reflecting the reaction of the officials of the larger and more influential institutions. In his testimony Sir Frederick Williams-Taylor, General-Manager of the Bank of Montreal and President of The Canadian Bankers' Association, declared that mergers could go on for some time without unduly centralizing the money power of the Dominion: [80]

Q. There has been, Sir Frederick, in the last twenty years a centralization of the money power of the Dominion, has there not? For instance, if I were to turn back the pages of history twenty or thirty years ago we would find twenty-eight banks operating and today there are seventeen; the tendency is for that to go on? —

A. Yes, I should think it would continue, with the permission, of course, of the Minister of Finance.

Q. Is that a good thing? — A. I think it is a very good thing to eliminate a weak bank.

Q. Do you think it is a good thing that there should be an increasing centralization of the money power of this country in the hands of a decreasing number of organizations? — A. I do not think we have reached the point where there is any possible danger at present.[81]

During his examination Sir Edmund Walker, President of the Canadian Bank of Commerce, stressed before the Committee the economies resulting from amalgamation, through lessened overhead expense. While data are not available to prove or disprove his contention, yet the point might well be raised whether a large bank, grown to huge proportions as a consequence of many mergers, does really operate proportionately at as low a cost as a smaller institution. Its very size is apt to make for a loose organization, to make adequate oversight increasingly difficult and to

[80] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 314. See also the statement by Mr. C. E. Neill, *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 261, and for a further defense of mergers an article by Fraser Dorward, in the *Monetary Times,* Vol. 72, p. 10.

[81] See table on pp. 330–333 for statistics of bank concentration.

make losses from lending operations large. A more moderate view than that of Sir Frederick Williams-Taylor or Sir Edmund Walker of the desirability of bank mergers was expressed by the Bank of Toronto in its annual report for 1924.[82] Its statement is worthy of particular attention as this institution has never been involved in a merger and has no vested interest to defend. It places the necessity or blame for mergers squarely on excessive rivalry and over-competition and hopes that bank amalgamations will place banking credits on a better footing:

> Two bank mergers have been announced during the year, which will reduce the number of chartered banks to twelve — still quite enough to provide all the competition desirable, and more. There has certainly been excessive rivalry in the banking field during the past twenty years, resulting in unnecessary duplication of banking services. Over-competition in any line of business is bad, but it is worse in banking than elsewhere. The practice of bidding for business follows, involving, in some cases, a departure from good banking — in the direction of excessive advances on inadequate security — almost invariably a bad thing for both borrower and lender. If the combinations which have taken place during the last few years enable banking credits to be placed on a better footing, with better earnings and smaller losses, only good can result, not only to bank shareholders but to the general public.

Attitude of Government Toward Mergers. Generally speaking, the Canadian Government does not look with favor upon mergers unless these are urgently necessary to protect the depositors or stockholders from loss. Its policy very definitely is not to grant permission if the purpose is one of reducing competition. Before applying formally for permission, a bank desiring to sell its assets to another institution will often approach the Minister of Finance in an informal fashion to ascertain his attitude. In case he intimates that he would be opposed, no formal application would be submitted.[83] If, on the other hand, he is convinced of the urgency of the case and of the absolute need of

[82] P. 9.
[83] See speech of Mr. Fielding, *House of Commons Debates,* June 20, 1923, p. 4134.

the merger as a means of preventing failures, he would communicate with the Bankers' Association and with the larger banks in an effort to find a purchasing bank. In this connection Sir Thomas White, a former Minister of Finance, stated most emphatically that the Finance Minister has the power, moral if not legal, to compel the existing banks to take over an institution approaching insolvency: [84]

> Q. Now at page 324 in No. 5, you say at the top of the page: — " Under no circumstances would I have allowed a bank to fail during the period in question." Now I would ask you, if you found a bank in difficulties, if it had been shown to you at that time that the Home Bank was in serious difficulties, what would you have done to prevent its failure? — A. If I had believed that the Home Bank at that time was in danger of failing, closing its doors, was insolvent, I should have gone to The Canadian Bankers' Association and told them to take over that bank. Either to one bank or more banks.
>
> Q. And what is your opinion as to what they would have done? — A. I think they would have looked into the situation, and on the situation, or anything like the situation that was before me, they would have done it. I think I would have made them do it.
>
> Q. If the bank was not too far gone? — A. Yes. I would have made them do it. When I say that, I had no legal power, but nevertheless I feel confident that I could have got them to do it, because it was in the midst of the war and if I had believed that that bank was in danger of insolvency or about to close its doors, I would have said to The Canadian Bankers' Association: " You take over that bank."
>
> Q. If you had known then what you do now, you would have done that, I suppose? — A. Absolutely.

Whether the Finance Minister can take the positive action outlined by Sir Thomas White, there is no doubt but that the Government's policy is to prevent any merger unless there is real

[84] *Royal Commission to Inquire into and Report upon Affairs of the Home Bank of Canada*, p. 359. The question naturally arises why this power was not exercised in connection with the Home Bank.

justification. Thus Mr. Fielding, then Minister of Finance, stated in the House of Commons: [85]

"I am quite prepared to admit that there may be need in the future of some mergers. I think as a rule they should be discouraged, but circumstances may arise which may render a merger necessary and proper. It has been suggested that a merger should only be made by a special act of parliament. I could not approve of that because the circumstances under which a merger may be deemed necessary may be very urgent, and to wait until parliament could convene might be to destroy the possibility of the merger going through and to lead to serious trouble. I am not anxious to promote mergers unnecessarily, but I cannot conceive of any arrangement that could be made which would be better than that which we already have. . . . If it were a case of two large banks where the amalgamation involved a diminution, a material diminution, in competition, it might be held there is no particularly good reason for the merger except some profit-making motive; there might be no public reason which would indicate its necessity."

Mr. Meighen, the leader of the opposition, was even more emphatic than Mr. Fielding, and expressed his conviction that the attitude of the Government toward mergers should be as antagonistic as possible: [86]

"In my judgment, the fewer mergers we have the better, that is, of the banks that we have to-day. My information is that in England they have fewer than we have in Canada, although they have a much larger population. Of course they have a somewhat different system. But the fewer we have the better, and the more adverse the attitude of the government and the Minister of Finance is toward mergers, the better for us. At the same time I quite admit that the Hon. member who has just sat down is correct when he says that there comes a time when merging is the only way that can prevent very great hardship to shareholders or possible loss to depositors — in a word, to prevent the very things which the safeguards of the Bank Act are intended to prevent.

[85] Debates, June 20, 1923, p. 4134.
[86] *House of Commons Debates,* June 30, 1923, pp. 4138–4139.

But it should be the last resort, and the very last resort; and the bank should understand that such is the attitude of the government. It should understand that it is only as a rescue from inevitable insolvency that a merger can be assented to. I can think now of no other justifiable case."

Conclusions Regarding Mergers. In reaching any conclusion regarding bank mergers in Canada, it must be borne in mind that the tendency toward fewer and larger banks is one to be found in all " advanced " industrialized nations. And also it should be remembered that it is a phenomenon not to be found in banking alone but in industry and commerce as well. In fact, a frequent excuse given for bank amalgamations is that the larger business units must be supported by larger financial aggregates. Whether these aggregates will, as Karl Marx predicted, be finally nationalized and operated by the Government, as in Russia at present, need not concern us at this point. The problem of immediate interest is the policies which should be followed, the attitude to be adopted by governments in capitalistic societies toward mergers. The Canadian Government has put itself on record as being in distinct opposition unless there is a " real need." But the situation calls for more than a negative attitude on the part of the Canadian Government. The Government should, as one constructive measure, exercise such careful supervision over the banks, subject them to such careful inspection, that the possibility of failure, and of that as a cause of mergers, is reduced to a minimum. Any such episode as the Merchants Bank debacle should not, now that there is an Inspector General of Banks, be allowed to develop. Even assuming that the Government were able to prevent such episodes, and thereby eliminate a state of approaching insolvency as a cause of mergers, this would but retain or perpetuate the *status quo*. The present situation with four banks of disproportionate size would continue. The big banks are here. What is to be done? And one is forced to confess that little can be done, that the Government must needs adopt a policy of " watchful waiting." Rigid supervision and examination can be enforced. And beyond this, little remains unless the Government feels that portions of the community are not getting the credit to which they are entitled, that there are un-

justified levies on the public, or other abuses. Whereupon, it could organize on its own initiative or through controlled corporations competing credit institutions, or it might set up commissions as recommended by Professor D. A. McGibbon[87] which would have much the same authority over banks, the extensions and cost of credit as that exercised by the Interstate Commission in the United States over the railroads. All of which probably seems inconclusive and indefinite and necessarily so in treating of a subject in which problems can be solved only as the situation arises.

Capital Requirements. In case the charter is favorably acted upon by Parliament, letters of incorporation are then granted, and after ten days' public notice, the provisional directors may cause the stock books to be opened for public subscription. Whenever the sum of $500,000 of the authorized capital has been bona fide subscribed (which must be done within a year's time) and payments in money on that account have been made by subscribers to a total of not less than $250,000,[88] the directors shall apply for a certificate from the Treasury Board (consisting of the Minister of Finance, the Receiver General, and four ministers belonging to the King's Privy Council for Canada as nominated by the Governor-General) to commence business.

The requirements in the Canadian banking law of a subscribed capital of $500,000 and of a paid-in-capital of $250,000 is much above the minimum capital requirements for national and state banks in the United States. In the case of national banks the minimum capitalization allowed is $25,000 for towns of 3000 and less. In the State of Tennessee commercial banks may be organized in localities of 1500 or less with as small a capital as $7500. This apparently is the rock-bottom figure. A little higher in the scale are a number of States, Alabama, Arkansas, Colorado, Kentucky, Minnesota, Mississippi, Missouri, and Oklahoma, which allow banks to be organized in small centers with a capital of $10,000. The adequacy of the capital requirements set by Canadian law cannot be judged by quoting the minimum allowed by

[87] *Report of the Commissioner on Banking and Credit with Respect to the Industry of Agriculture in the Province of Alberta,* 1922, pp. 47–48.

[88] The provisional directors must place in trust $250,000 with the Minister of Finance in order that he may be assured that this amount has been paid in on the stock subscribed.

Federal or State law in the United States, for once a bank is organized in Canada it may have branches anywhere. The privilege of establishing branches even to a limited and restricted extent in the United States is enjoyed only in exceptional instances. In only a few states are banks allowed to establish branches outside of the city in which the head office is located. When the capital requirements of those states are studied, the Canadian figures do not seem so high. In California, for example, a commercial bank in localities of 200,000 or over (which if applied to Canada would include Toronto and Montreal where the chief operating offices of all but one of the banks are located) must have a minimum capital of $300,000 and $25,000 in excess of the minimum for each branch opened in the place where the principal business of a bank is transacted, and for each branch established in another locality the minimum must be increased by the amount required for banks in that locality. Besides California, there are ten states which definitely permit state-wide branch banking. The capital required in these states in towns the size of Toronto or Montreal and the additional increment for each branch established are given in the following table:

Name of State	Capital Required	Additional Increment
Arizona	$200,000	$15,000 (additional capital and surplus).
Delaware	....	A capital of $25,000 is required for each place of business and proposed branch and a surplus of at least $25,000 for each place of business in operation.
Georgia	50,000	At discretion of banking superintendent, not less than amount of capital required to organize a unit bank in place where branch is opened.
Maryland	200,000	Same provision as in case of Georgia.
North Carolina	100,000	Same provision as in case of Georgia.
South Carolina	25,000	No provision.
Rhode Island	....	Only provision is that commercial deposits must not exceed ten times combined capital and surplus.
Tennessee	50,000	No provision.
Virginia	25,000	No provision.
Wyoming	100,000	No provision.

In the following table the chartered banks are listed in the order of their paid-up capital, which, as it so happens (with the ex-

ception of the Royal Bank), is also the order of their authorized and subscribed capital. It will be noted that none of the banks have an authorized capital as small as that permitted by law. The authorized capital of the Weyburn Security Bank, the smallest of all, is twice the legal minimum. It will also be noted that the paid-up and subscribed capital of each bank is identical excepting in the case of the Royal Bank and the Weyburn Security Bank. The authorized capital is in all cases larger than the paid-up capital and largest relatively in the case of the Bank of Toronto: [89]

The Capital of the Chartered Banks

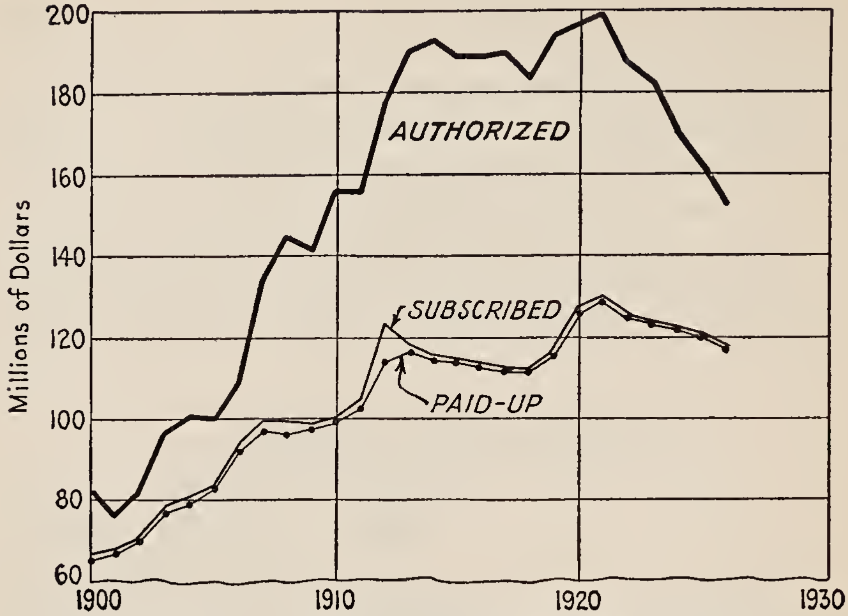
	Paid-Up Capital	Capital Authorized	Capital Subscribed
Bank of Montreal	$29,916,700	$31,175,000	$29,916,700
Royal Bank of Canada	29,738,450	40,000,000	30,000,000
Canadian Bank of Commerce	20,000,000	25,000,000	20,000,000
Bank of Nova Scotia	10,000,000	15,000,000	10,000,000
Imperial Bank of Canada	7,000,000	10,000,000	7,000,000
Dominion Bank	6,000,000	10,000,000	6,000,000
Banque Canadienne Nationale	5,500,000	10,000,000	5,500,000
Bank of Toronto	5,000,000	10,000,000	5,000,000
Banque Provinciale du Canada	4,000,000	5,000,000	4,000,000
Weyburn Security Bank	524,560	1,000,000	655,700

The chart shown at the top of the next page presents, since 1900, fluctuations in the authorized, subscribed, and paid-up capital of the chartered banks. The maximum point in all three curves was reached in 1921, since then there has been a drop of 47 millions of dollars in authorized capital and of 12 millions of dollars in paid-up capital.[90]

Surplus Requirements. The only provision appearing in the Act regarding the building up of a surplus fund is Section 59 which limits the payment of dividends to 8% per annum unless the surplus is equal to 30% of the paid-up capital after providing for all ascertained and estimated losses. As a matter of fact, the accumulated surplus of each of the chartered banks is considerably

[89] Source: *Return of the Chartered Banks,* July 30, 1927.

[90] Source of data: *Returns of the Chartered Banks.* Data as of the last banking day in July of each year.



A Comparison of the Authorized, Subscribed and Paid-up Capital of the Chartered Banks

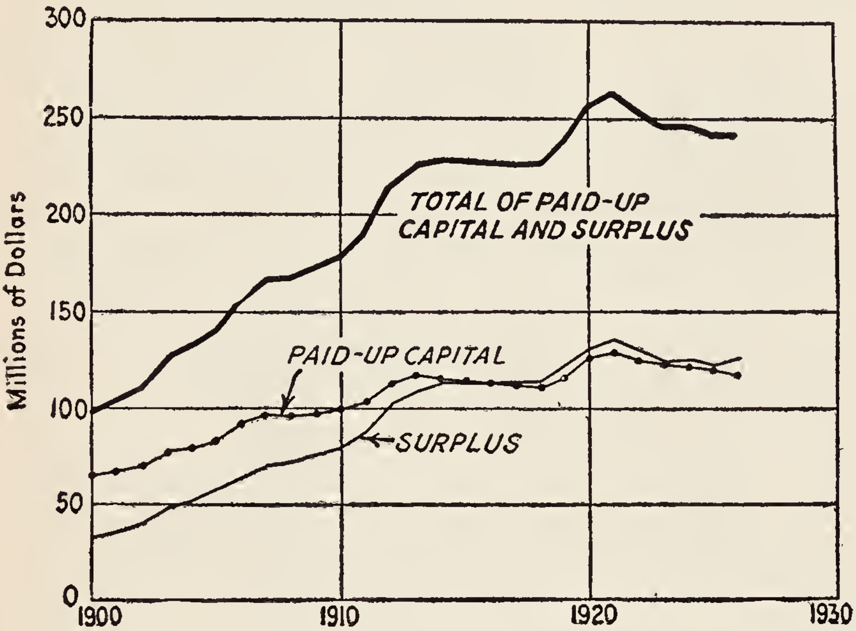
larger than the requirement. In the case of all but three it is equal to at least 100% as shown in the following table which lists the banks in the order of the relative magnitude of their surplus funds:

Surplus and Paid-Up Capital of the Chartered Banks as of July 30, 1927 [91]

Name of Bank	Surplus	Paid-up Capital	Ratio of Surplus to Paid-Up Capital
Bank of Nova Scotia..........	$19,500,000	$10,000,000	195%
Bank of Toronto..............	7,000,000	5,000,000	140
Dominion Bank..............	7,000,000	6,000,000	116.6
Imperial Bank................	7,500,000	7,000,000	107.1
Bank of Montreal.............	29,916,700	29,916,700	100
Canadian Bank of Commerce...	20,000,000	20,000,000	100
Royal Bank of Canada........	29,738,450	29,738,450	100
Banque Canadienne Nationale..	5,500,000	5,500,000	100
Standard Bank of Canada.....	2,900,000	4,823,400	60.1
Weyburn Security Bank.......	225,000	524,560	42.5
Banque Provinciale du Canada.	1,500,000	4,000,000	37.5

[91] Source of data: *Returns of the Chartered Banks,* July 30, 1927.

Rather an interesting feature of the Canadian banking system has been the greater rapidity in the growth of surplus since 1900 as compared with capital. This fact is illustrated in the accompanying chart.[92]

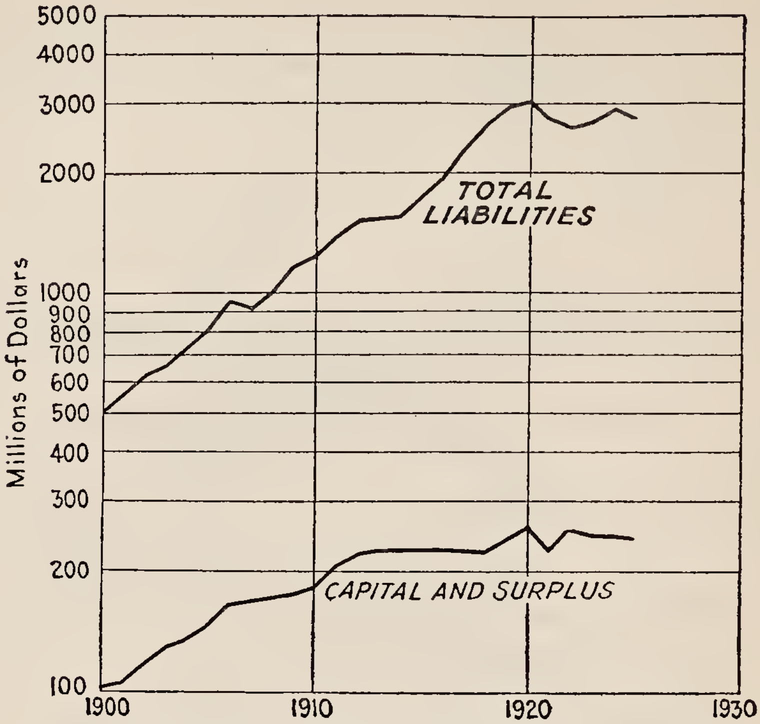


Trend of Paid-up Capital and Surplus

Decline in Ratio of Capital and Surplus to Total Liabilities. One of the most disturbing features of the Canadian banking system since 1900 has been the steady decline in the ratio of capital and surplus to liabilities. In 1900 this amounted to slightly more than 20%, while now it fluctuates around 9%. The most precipitous decline took place in the war period, the ratio falling from 14.59% in 1914 to 8.21% in 1920, which is accounted for by the phenomenal increase in liabilities during those six years with no proportionate increase in net worth.

The failure of Canadian banks to increase their net worth as their liabilities expanded has had one quite significant result in reducing the potential expansibility of their note circulation which, prior to 1908, could not exceed the amount of their paid-up

[92] Source of data: *Returns of the Chartered Banks.* Data are given as of the last banking day in July of each year.



Relative Growth of Total Liabilities and Capital and Surplus (Ratio Scale)

Per Cent of Capital and Surplus to Total Liabilities

capital. In fact, the expansive power became so impaired that the banks found difficulty in meeting the autumnal pressure, and as a consequence an amendment was enacted in 1908 permitting a larger or emergency circulation during the crop-moving periods.[93] The bankers in their testimony before the Committee on Banking and Commerce in 1913 explained their failure to increase their capital to their inability to sell bank stock to keep pace with a rapidly growing population.[94]

The decline in the ratio of net worth to liabilities again received serious consideration by the Banking and Commerce Committee in 1923. Sir Edmund Walker attempted to explain this decline on the ground that the banks had been over-capitalized previously [95] and that they were unable to make sufficient earnings to pay attractive dividends on their stock and that the decline had come about as a natural readjustment of business to capital. As a further justification or rationalization he made the point that the liabilities of the great British banks were larger in proportion to their capital than the liabilities of the Canadian banks. Be that as it may, Sir Edmund Walker's explanation does not cover the rapid decline during the war inflation period and, all in all, it is a most unhealthy tendency in Canada and elsewhere. In the table shown at the top of the next page, the chartered banks are listed in the order of the relative size of their capital and surplus to total liabilities.[96]

[93] For further discussion, see *The Canadian Banking System,* by J. F. Johnson, pp. 130–131, also, *Interviews on the Banking and Currency Systems of Canada* (National Monetary Commission, U. S. A.), p. 71 and *Minutes of Proceedings, Evidence,* etc., 1913, pp. 258 and 640. See also pp. 381–385 in this chapter.

[94] In his testimony in 1913, (*Minutes of Proceedings, Evidence,* etc., p. 558), Sir Edmund Walker presented a table giving data regarding the shares of the Canadian Bank of Commerce owned in the different Provinces of Canada and abroad.

[95] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 528–529.

[96] *Returns of the Chartered Banks,* July 30, 1927.

Name of Bank	Capital Paid-Up	Surplus	Total Liabilities	Ratio of Capital & Surplus to Liabilities
1. Bank of Nova Scotia	$10,000,000	$19,500,000	$248,387,329	11.9
2. Weyburn Security Bank..........	524,560	225,000	6,453,518	11.6
3. Banque Provinciale du Canada.....	4,000,000	1,500,000	49,841,687	11.0
4. Imperial Bank of Canada	7,000,000	7,500,000	133,302,821	10.9
5. Dominion Bank ..	6,000,000	7,000,000	128,503,643	10.1
6. Bank of Toronto..	5,000,000	7,000,000	122,415,365	9.8
7. Canadian Bank of Commerce	20,000,000	20,000,000	489,849,138	8.2
8. Bank of Montreal.	29,916,700	29,916,700	769,180,668	7.8
9. Royal Bank of Canada........	29,738,450	29,738,450	772,473,639	7.7
10. Banque Canadienne Nationale .	5,500,000	5,500,000	147,994,969	7.4

Directors — Qualifications. The Bank Act specifies that the Board of Directors of each chartered bank is to be elected at the annual meeting of shareholders held at the chief office of the bank. The minimum number to be chosen is not specified by law, as in the case of National Banks in the United States, which must have at least five. A majority of the board, whatever number it may consist of, must be natural-born or naturalized subjects of His Majesty and domiciled in Canada. Each director must own a certain amount of stock and, as indicated in the following table, the amount of stock to be owned is proportioned to the paid-up capital of the bank:

Minimum Amount of Stock Required to be Owned	Paid-Up Capital of Bank
Par Value	
$3000	$1,000,000 or less
4000	1,000,000 to 3,000,000
5000	3,000,000 or over

The directors ordinarily own considerably larger blocks of stock than required by law. In the case of the Bank of Montreal, the by-laws require a holding of at least 100 shares. The following table will give an idea of the shareholdings of the directors of seven of the chartered banks:

Name of Bank	Number of Directors	Shares Owned by			
		President	General Mgr.	Others	Average Holdings of Directors
Bank of Nova Scotia..........	16	546		From 75 to 786	363 (as compared with average holdings of all shareholders of 24.7 shares)
Bank of Toronto ..	12	1186	130	From 60 to 200	191
Canadian Bank of Commerce......	30	200	(Not a member of the Board)	From 50 to 656	146
Dominion Bank...	10	1000	400	From 100 to 565	401
Banque Canadienne Nationale	11	400	(Not a member of the Board)	From 100 to 500	225
Imperial Bank of Canada	9	243[97]	...	From 50 to 500	...
Weyburn Security Bank	7	400	...	As high in one case as 800 shares	...

Generally speaking, the directors are drawn from various sections of the country, in a few cases, from foreign countries, and

[97] The president's firm in which he is the chief partner owns 590 shares.

are representative of all leading forms of business activity. To give an idea of the geographical distribution of the boards, the accompanying table is inserted giving the domicile of the directors of the Canadian Bank of Commerce:

Domicile	Number of Directors
Toronto	8
Hamilton	6
Montreal	5
Winnipeg	5
Halifax	1
Ottawa	1
Victoria	1
New York	1
Chicago	1
Rio de Janiero	1
Total	30

Powers of Directors. The directors are granted power to make by-laws and regulations not inconsistent with the Bank Act in respect to:

(a) The management and disposition of the stock, property, and affairs and concerns of the bank.
(b) The duties, remuneration, and the bond or guarantee to be required of the officers and employees.
(c) All other matters as may appertain to the business of the bank.

From among their own number the directors elect a chairman and one or more vice-chairmen, with the titles of President and Vice-President respectively.[98] The officer corresponding to the president of a national bank in the United States bears the title of General Manager, and though he is in some cases a member of the board this is not required by law.

Duties of Directors. At the annual meeting of the share-

[98] Usually honorary positions though, in a few instances, General-Managers have been elected as President and continued as active executive officers.

holders the outgoing directors, who are eligible for reëlection, must submit a clear and full statement of the affairs of the bank, presenting the assets and liabilities and profits and loss account as well as similar statements of any corporation in the name of which the bank carries on any part of its operations. Further, as evidence (of more or less value) of the directors' interest in the affairs of the bank, a record of their attendance is mailed yearly to each shareholder. In case directors live at such distant points as to be unable to attend, a statement of the nature of their contribution to the institution may be inclosed.

Bank Management in Canada. In a chapter of this length, dealing primarily with the broad phases of the Canadian banking system and with the rôle it plays in the economic and industrial organization of the Dominion, any lengthy discussion of the technique of banking, of bank management or organization, would be out of place. These are admittedly topics of importance and of widespread interest, and might well be developed in separate treatises.

Branches of the Chartered Banks. To the banker and student of banking in the United States, involved or interested as he may be in the branch bank controversy, the most engrossing feature of the Canadian banking system is the network of branches stretching across the Continent. Years ago the note issue privileges of the chartered banks occupied the center of interest, but this has passed now that the Federal Reserve note has injected the needed elasticity into the American currency system. The question of city branch banking is today in the limelight and looming important in discussions of economists and bankers and in Congress.[99] Though the United States has what is commonly termed a unit independent type of banking system, which means that the typical bank has no branches, it is interesting to note that at the time of the establishment of the Union the tendency was towards branch banking. The first Bank of the United States incorporated by an act sponsored and approved by the fathers of the country, with its head office in Philadelphia, had as many as 8 branches in other important centers. Even those who op-

[99] For a discussion of the branch bank question see Volume VI, Chapter XIII, of *Banking Inquiry, 1925,* filed by Dr. H. Parker Willis with the Committee on Banking and Currency, United States Senate, 1926.

posed the act on the ground that it was unconstitutional, did not oppose the branch bank provisions *per se* or claim that these were "un-American," a statement frequently used by opponents of branch banking at the present time. The second Bank of the United States organized in 1816, with its head office also in Philadelphia, had at one time or another as many as 27 branches, located in such remote, but yet important centers commercially, as New Orleans and Portland, Maine. Not alone did these Federal banks have branches but also many banks chartered by special state enactments such as the Bank of the State of Indiana and the Bank of Missouri had branches. The tendency before the Civil War was quite definitely in the direction of branch banking.

This development was checked by the passage of the National Bank Act which, while it did not prohibit branches, yet did not expressly give national banks this right. Owing to the heavy tax imposed on their note-issue privileges, state banks found it more profitable and expedient to surrender their state charters and to enter the national system as unit banks. The arresting of branch banking and the establishment of the unit-independent type of banking system, which may be laid at the doors of the National Bank Act, by hampering an easy flow of funds from section to section, occasioned the necessity for, and led to the establishment of, the Federal Reserve Banks which are themselves allowed to establish branches.

There is no uniformity, of course, in the state banking laws regarding branch banking. In ten States and the District of Columbia, state-wide branch banking is permitted.[100] Five States, Louisiana, Maine, New York, Massachusetts and Ohio, allow branch banking within certain geographic limitations. Four States, Kentucky, Mississippi, Michigan and Pennsylvania, allow banks to establish branch offices or agencies but not branches. In 29 States branch banking is not permitted either explicitly by law or by court decisions or administrative rulings. Diverse as are Federal and State laws on the subject of branch banking, the fact remains that branch banking to some extent does exist. And above all, public interest is more generally aroused on this subject that ever before.

[100] See page 348 for list of these states.

Source of Legal Authority for Canadian Branches. It is by Section 75 (a) of the Bank Act that the chartered banks are granted the very general power to open branches, agencies, and offices. This privilege extends not only to all sections of Canada but also to those foreign nations (England, Cuba, etc.) which by their own laws or official usage will permit Canadian banks to operate within their territory.[101] As the following table indicates, each of the chartered banks has taken advantage of this section and operates branches and does business in more that one Province excepting the Weyburn Security Bank which confines itself exclusively to Saskatchewan:[102]

NUMBER AND LOCATION OF BRANCHES OF CANADIAN BANKS
(AS OF DECEMBER 31st, 1925)

Chartered Bank	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Yukon	Other Countries	Sub-Agencies	Total
Bank of Montreal....	1	14	14	112	224	37	58	63	44	1	16	33	617
Bank of Nova Scotia..	9	38	36	19	126	8	14	5	6	–	38	22	321
Bank of Toronto.....	..	..	..	11	90	10	35	9	5	..	..	5	165
Banque Provinciale du Canada...........	3	..	15	98	17	..	..	..	..	..	..	203	336
The Canadian Bank of Commerce.........	7	20	6	63	169	49	87	53	54	2	16	23	549
The Royal Bank of Canada...........	7	63	24	66	250	80	147	82	54	..	126	24	923
The Dominion Bank..	..	..	1	5	86	11	5	5	3	..	2	1	119
Standard Bank of Canada...............	..	..	1	1	161	10	17	19	1	..	..	13	223
Banque Canadienne Nationale.........	..	..	..	211	20	10	7	6	..	..	1	329[103]	584
Imperial Bank of Canada...............	..	..	..	2	92	7	22	23	13	..	..	18	177
Weyburn Security Bank.............	..	..	..	..	..	..	26	..	..	..	..	..	26
Total............	27	135	97	588	1235	222	418	265	180	3	199	671	4040
Sub-agencies.....	4	5	11	512	103	11	8	9	7		1		
	31	140	108	1100	1338	233	426	274	187	3	200	671	4040

[101] New York State allows foreign banks to be represented by agents, upon receiving a license from the State banking department, but does not permit the receipt of deposits.

[102] This and the following table were furnished by Mr. Henry T. Ross, secretary of The Canadian Bankers' Association.

[103] Of these sub-agencies perhaps 320 are merely notaries who receive deposits but do no discounting or other business for the bank. In the

While the two so-called French banks operate in several Provinces, all but a small percentage of their branches and offices are concentrated in Quebec and for all practical purposes they may be termed one-Province banks. The remaining eight are truly national and four of them truly international in character. The Royal Bank, with its 797 domestic branches and sub-agencies, leads the rest, with the Bank of Montreal second and the Canadian Bank of Commerce third.

The foreign branches of the chartered banks are given in the table on the opposite page. Six at the present time have offices abroad and as an interesting sidelight, five of these have branches or offices in both England and the United States. The 126 foreign offices of the Royal Bank[104] concentrated for the most part in the West Indies, Central and South America, account for 63% of the foreign branches of all the Canadian banks.

Rapidity of Branch Expansion. The increase in the number of branches or banking offices in Canada, data for which are given in the table on page 362, has been most phenomenal in the past twenty-five years. In 1900 there were but 708 banking offices, or one for every 8000 persons, while in 1920, which marked the peak of war inflation, there were 4676, or one to every 1846 persons. While there has been a decline in the past six years in the number of banking offices, the total is still 5½ times the 1900 figure, so that even now there is one banking office for every 2450 persons.

Up to 1918 the number of sub-agencies maintained by the banks were not given separately in the data of branches. Most of these are located in Quebec, where a notary is appointed to receive deposits. In other Provinces a sub-agency means a point at which the bank is open for the receipt of deposits and the granting of

---

case of the Canadian Bank of Commerce, the sub-agencies are open from one to four days a week, do a regular banking business, and are manned by employees sent from a near-by branch.

[104] The foreign business of the Royal Bank has been most profitable.

Number of Foreign Branches of Canadian Chartered Banks
(as of December 31, 1925)

Banks and Location	Number of Branches
Bank of Montreal	
Newfoundland	5
Great Britain	2
France	1
United States	3
Mexico	5
The Bank of Nova Scotia	
Newfoundland	12
Great Britain	1
United States	3
Jamaica	11 [105]
Cuba	7
Porto Rico	2
Dominican Republic	3
The Canadian Bank of Commerce	
Newfoundland	3
Great Britain	1
United States	4
Mexico	1
West Indies	5
Brazil	1
St. Pierre et Miquelon	1
The Royal Bank of Canada	
Newfoundland	5
Great Britain	1
France	1
Spain	1
United States	1
West Indies	92
Central and South America	25
The Dominion Bank	
Great Britain	1
United States	1
Banque Canadienne Nationale	
France	1
Total	200

[105] Includes one sub-agency.

HISTORICAL DEVELOPMENT OF BRANCH BANKING BY PROVINCES[106]

Dec. 31	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Northwest Territories	Alberta	British Columbia	Yukon	Total
1868	..	5	4	12	100	...	...	...	...	2	..	123
1889	6	47	32	60	231	13	...	4	...	9	..	402
1890	6	48	31	77	237	14	...	4	...	9	..	426
1891	6	51	32	94	247	21	...	8	...	9	..	468
1892	6	53	30	94	254	24	...	8	...	10	..	479
1893	6	58	29	102	263	24	...	8	...	12	..	502
1894	6	62	31	103	272	19	...	8	...	12	..	513
1895	6	62	31	115	275	20	...	8	...	13	..	530
1896	7	64	31	112	272	22	...	9	...	16	..	533
1897	8	69	31	114	269	29	...	11	...	24	..	555
1898	8	70	31	128	285	46	...	16	...	36	2	622
1899	9	74	34	113	321	50	...	19	...	41	2	663
1900	10	85	34	123	336	50	...	19	...	48	3	708
1901	9	89	35	137	349	52	...	30	...	46	3	750
1902	7	101	41	147	420	79	...	54	...	52	3	904
1903	11	99	47	183	491	87	...	78	...	50	3	1049
1904	10	101	49	196	549	95	...	87	...	55	3	1145
1905	11	100	50	246	701	127	...	150	...	66	3	1454
1906	14	106	54	270	845	166	...	209	...	78	3	1745
1907	14	104	55	297	929	163	...	231	...	90	3	1886
1908	16	104	58	311	918	162	...	252	...	103	3	1927
1909	16	106	67	342	962	175	207	...	156	130	3	2164
1910	15	111	72	368	977	188	273	...	192	168	3	2367
1911	15	111	74	396	1008	194	323	...	216	214	3	2554
1912	15	111	77	474	1062	204	375	...	255	237	3	2813
1913	15	109	75	536	1108	211	391	...	263	251	3	2962
1914	17	107	76	605	1144	208	401	...	258	230	3	3049
1915	17	109	79	716	1164	204	401	...	258	208	3	3159
1916	17	111	80	767	1146	199	399	...	245	193	3	3160
1917	18	115	82	615	1129	199	419	...	256	179	3	3015
1918	24	123	84	795	1165	254	506	...	307	178	3	3439
1919	36	155	111	1055	1451	322	581	...	408	215	3	4337
1920	41	169	121	1150	1586	349	591	...	424	242	3	4676
1921	40	166	122	1236	1574	329	549	...	396	244	3	4659
1922	36	156	127	1198	1521	304	524	...	356	226	3	4451
1923	30	150	128	1193	1443	271	481	...	320	208	3	4227
1924	33	141	124	1138	1401	249	452	...	299	200	3	4040
1925	31	140	108	1100	1338	233	426	...	274	187	3	3840

106 Sub-agencies are included.

Sources: 1899–1908, *History of Banking in Canada* (National Monetary Commission), by Breckenridge, p. 310; 1909–1925: Mr. Henry T. Ross, Secretary of The Canadian Bankers' Association.

discounts for one, two or three days a week. The following table gives the number of branches and sub-agencies in Canada beginning with 1918: [107]

BRANCHES AND SUB-AGENCIES
(as of December 31 each year)

	1918		1919		1920		1921	
	Branches	Sub. Ag.	Branches	Sub. Ag.	Branches	Sub. Ag.	Branches	Sub. Ag.
Prince Edw. Isl...	24	...	35	1	38	3	36	4
Nova Scotia.....	123	...	145	10	162	7	161	5
New Brunswick..	84	...	103	8	109	12	109	13
Quebec.........	520	275	578	477	617	533	649	587
Ontario.........	1119	46	1339	112	1459	127	1430	144
Manitoba.......	240	14	292	30	320	29	307	22
Saskatchewan....	477	29	553	28	570	21	532	17
Alberta.........	297	10	382	26	402	22	372	24
British Columbia.	175	3	204	11	234	8	228	16
Yukon..........	3	...	3	...	3	...	3	...
	3062	377	3634	703	3914	762	3827	832
Foreign Branches	130	...	155	...	194	...	201	...
Foreign Sub-agencies...........	....	...	....	2	....	6	....	5
	3192	377	3789	705	4108	768	4028	837

	1922		1923		1924		1925	
	Branches	Sub. Ag.	Branches	Sub. Ag.	Branches	Sub. Ag.	Branches	Sub. Ag.
Prince Edw. Isl...	32	4	28	2	28	5	27	4
Nova Scotia.....	151	5	146	4	136	5	135	5
New Brunswick..	108	19	109	19	106	18	97	11
Quebec.........	631	567	632	561	611	527	588	512
Ontario.........	1396	125	1350	93	1303	98	1235	103
Manitoba.......	288	16	260	11	240	9	222	11
Saskatchewan....	505	19	477	4	448	4	418	8
Alberta.........	346	10	314	6	292	7	265	9
British Columbia	217	9	203	5	195	5	180	7
Yukon..........	3	...	3	...	3	...	3	...
	3677	774	3522	705	3362	678	3170	670
Foreign Branches	199	...	194	...	188	...	199	...
Foreign Sub-agencies...........	....	1	....	1	....	1	....	1
	3876	775	3716	706	3550	679	3369	671

[107] Supplied by Mr. Henry T. Ross.

Persons per Banking Office. In consequence of the rapidity of branch expansion, the people of Canada have today more banking offices per capita than those of the majority of other countries.

Number of Persons per Banking Office					
Year	Canada	United States	England and Wales	Scotland	Australia
1900	8000	7300	8500	4100	....
1905	5200	5100	7500	4000	....
1910	3250	4000	6800	3800	....
1915	2500	3750	5800	3800	2344
1920	1800	3500	5200	3800	2300 (approximately)
1925	2450	3900	4600	3100	2108

There is a remarkable stability in the number of persons per banking office in Scotland. It seems that the saturation point was reached earlier than in the other countries. In the five-year period from 1920–1925, there has been an increase in banking offices in England, Scotland and Australia, but a decline in Canada and the United States. This would seem to indicate that Canada and certain parts of the United States were overbanked during the period from 1915 to 1920. Whether a nation is or is not overbanked, is of course entirely relative. Nations with scattered populations as Canada and Australia naturally will have more banking offices per capita than England with its dense population. But the fact that since 1920 the number of banking offices has declined would seem to indicate a previously overbanked condition.

Foreign Branches. The foreign branches of the chartered banks have multiplied relatively much more rapidly than the domestic. As the following table indicates, fifteen years ago there were but 52, while now there are 200. In fact, the Canadian banks have more foreign offices than the banks of the United States:

Foreign Branches of Canadian Banks (as of December 31 each year)	
1910	52
1911	70
1912	78
1913	87
1914	93
1915	97
1916	111
1917	120
1918	132
1919	146

	1920	1921	1922	1923	1924	1925
Great Britain	9	9	8	7	7	6
United States	15	15	15	14	13	12
France	3	3	3	3	3	3
Spain	1	1	1	1	1	1
Newfoundland	51	47	37	28	24	25
Mexico	2	2	3	4	6	6
West Indies	102	112	117	123	120	120
Central and So. America	16	16	16	14	14	26
St. Pierre et Miquelon	1	1	1	1	1	1
Total	200	206	201	195	189	200

The rapid establishment of branches in Canada is in part an indication of the flexibility of the Canadian banking system. Wherever the population shifted, to the Prairie Provinces, the gold fields of the Klondike and Cobalt, the ranching or lumbering sections, the banks followed. During the World War branches were established in the concentration camps of the Canadian Army, and followed the troops to Europe. Hamlets with only a few inhabitants have banking accommodation, that would lack such facilities in the United States. In his testimony before the Banking and Commerce Committee in 1913, Sir Edmund Walker outlined the policy of his bank in establishing branches in the West in advance of the railways: [108]

Q. Is this the place where you would like to tell the Committee something about the rules that govern your bank in opening

[108] *Minutes of Proceedings, Evidence, etc.*, 1913, p. 485.

branches throughout the West? — A. In the old days, in Ontario, we waited to open a branch until a community had a population of two or three thousand. We thought it would then pay its expenses in a reasonable period of time. In the West we advanced that condition until we began to go in with the new division of the railway, going in practically with the first storekeeper. At the present time we have, I think, three branches in the Peace River country, miles and miles in advance of the railways. The idea of that is that under our franchises we are expected to serve the part of Canada that is growing so rapidly, and we do not anticipate that these branches will pay at first. Our experience is that on the average they do not pay until the third year. Some of my people say the third or fourth year. It takes six or seven years at least before we have made enough money to cover the losses made in the first three years, so we are really spending out of our profits every year a very large sum of money to establish branches in the western country, which in the nature of things bring us no profits for six or seven years.[109]

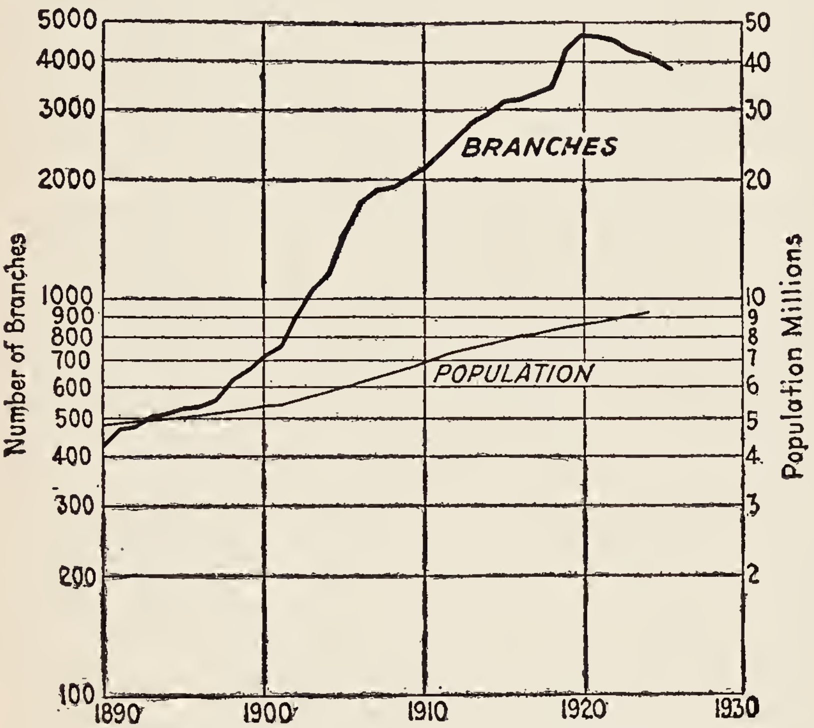
Walker's statement that Canadian banks have more than kept pace with population increases is strikingly illustrated in the ratio chart shown on the opposite page.

Not only are there more banking offices per capita in Canada than in the United States, and not only have banking offices been opened much in advance of population growth, but also it must be noted that the customers have at their disposal, by virtue of the branch system, institutions with millions and hundreds of millions of dollars of assets, with offices in the leading cities of Canada, and in the more important money markets of the world, and in some cases with direct wire service to the commercial centers of the United States. Branches with such power behind them are able to make larger loans, and through their many ramifications are enabled to serve their customers most fully in the selling of foreign and domestic exchange and in obtaining infor-

[109] On this same point see Joseph French Johnson, *The Canadian Banking System,* p. 84, and an article by Eckhardt, entitled "Canadian Banking," in the *Annals of the American Academy for Political and Social Science,* 1913, pp. 161–162, and charts issued by the Department of the Interior, Canada, showing branches of the chartered banks in Manitoba, Saskatchewan and Alberta.

mation relative to business, economic, and credit conditions in Canada and abroad.[110]

Canada Overbanked. The establishment of branch offices has proceeded to such an extent that there has been general agreement during the past ten or fifteen years that Canada has been



The Rate of Increase in the Establishment of Branches Compared with Rate of Increase in Growth of Population

in an overbanked condition. This thought was expressed by Mr. Wilkie, General Manager of the Imperial Bank of Canada, to the members of the National Monetary Commission.[111]

> I have just come back from a village in the Northwest and I discovered three banks in a place where there was not business enough for one. At the present moment the branch idea is being carried on to excess.

110 For a fuller discussion see *A History of the Canadian Bank of Commerce,* Vol. II, by Victor Ross.

111 *Interviews on the Banking and Currency Systems of Canada,* p. 145.

The same conviction was held by some of the witnesses appearing before the Banking and Commerce Committee in 1923. Thus Mr. George Bevington cited the excessive number of banking offices as responsible for the high rates of interest in the West: [112]

Aside from that I would like to point out another great waste in the system, if I might be permitted. We have a duplication in all of our towns, cities, and villages of banks — I could point you out many places in the west, little towns of 4,000 inhabitants that have from three to five banks operating in the town, with not enough business for one bank, but still they are there. I could point you out one place in particular, where the branches have found it necessary, in order to meet the cost of maintaining the banks, to charge 10 per cent per annum, and to compound it every month; and the branches under those conditions do not show a profit. Take the city of Edmonton, in one block of the city, on either side of the street there are eight tremendous buildings for a city the size of Edmonton, all owned by banks.

Sir John Aird, General Manager of the Canadian Bank of Commerce, admitted that the West was overbanked but explained this on the ground that (a) the Government encouraged the opening of branches as a part of its colonization policy and (b) that branches were opened subsequent to the war as a means of absorbing the returning soldiers: [113]

Q. Just one or two other questions. The witness yesterday stated that the business of the banks in Western Canada was unprofitable. I would like the opinion of the witness as to how far there is a waste in the duplication of services throughout the West which would be responsible for the high cost of carrying on in that portion of Canada. One of the witnesses stated that in a particular town there were quite a number of bank premises on one street, of all of which the rent had to be paid for, or the upkeep expenses on each one; and in his opinion one particular

[112] *Proceedings of the Select Standing Committee in Banking and Commerce,* 1923, pp. 159–160.

[113] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 358–359. See also speech by Mr. Maclean (Halifax), *House of Commons Debates,* June 19, 1923, p. 4093.

equipment was sufficient to handle all of the banks. Now I want to get at this as to whether or not the duplication of machinery, the multiplication of machinery in Western Canada may not be responsible for the expense of keeping up the service in that part of the country and therefore indirectly responsible for the high interest rates. — A. There are several reasons for that and I would ask the Chairman's permission to digress a little. We, the banks, admit that there are probably too many branch banks in the West but we do not admit altogether that it is the fault of the banks. We were one of the pioneer banks of the West; we were bankers for the Canadian Northern Railway Company at the time — now the Canadian National — and we were requested by the Government in view of the progress of the Dominion to anticipate the extension of that system. We did; we went on from time to time and kept going on even before the railway. As we went on and the country developed as it did from 1898 to 1910 the population increased by probably a million and a half to two million people, and naturally the other banks followed in time and districts were opened up looking forward to the continuance of the development which unfortunately came to an end with the beginning of the Great War. This is, apart altogether from banking, but it will probably answer your question. When the Great War broke out in 1914 there was no class of the community that responded to the call of the Empire as well as did the banks either in men or money. In our case, and I have no doubt it was the case with all the banks but more with our bank — we had a large number of employees in Canada, a larger number than any other bank — nearly forty-five hundred or five thousand, and fifty per cent of the effective force of our staff went to the war inside of the first three months on the understanding that if they were fortunate enough to come back they would be restored to the positions they held before they went to the war and they would get the same salaries they would have got if they had not gone to the war, including increases. Unfortunately for us we lost two hundred or three hundred men and we had a couple of hundred more incapacitated. We had to carry on the bank; what did we do? We took in temporary men and women — a fine lot of men and women too. We had fifteen hundred women. When the war ended we had twelve hundred men come back to our bank and we

had to carry out our obligation and if we had not we could not continue in business. The question was what was the most economical way and most fair way to do. We did not want to open branches, but we opened branches and put these men in Western Canada principally in the new districts. These men got their salaries increased and unfortunately we did duplicate branches, a great mistake in going into the new country, particularly in Northern Alberta and in the Peace River country. No doubt that added to the cost of operating. In addition we could not turn out the fifteen hundred men and women who stood by the bank during the war. We have still some of those on hand. It cost our bank in the last three or four years $1,750,000 to take care of the returned men. We admit we have made mistakes in opening branches and we are trying to rectify that now, but all of the mistakes were not on the part of the banks. It was the insistence of the Government and the people of the West that they should get banking accommodations so we had to open branches in certain points. I think in some of the evidence given yesterday and the day before you spoke about branches being closed and branches being opened. Well, we opened branches. If we closed them it would be an unfair thing to leave a community without the service, and that is why we keep them open.

Though the number of branches established had reached a peak in September, 1921, where there were 4923 in operation, the Dominion Bank as late as 1923 in its annual report expressed the thought that banking facilities were even as yet still in excess of the country's requirements: [114]

The total number of branch banks in Canada has decreased by 221 since a year ago, which is a move in the right direction and a policy which has been advocated by The Dominion Bank for some years past.

Even now, however, it must be recognized that the banking facilities of the country are still far in excess of the requirements of our present population, and while this continues to be the case, expansion into new fields should be limited unless we see a de-

[114] Pp. 24–25.

mand in a particular locality which we think this Bank should serve.

In the past several years we have eliminated certain branches where there seemed little prospect of placing them on a paying basis, and at the present time we do not think there is any branch of this Bank not fully warranted.

Again in its annual report[115] for 1924, the Dominion Bank claimed that the reduction in branches would continue:

The total number of branches operated by the chartered Banks of Canada, which stood at 3,047 at the end of the year 1914, increased steadily throughout the war, reaching 3,446 at the end of 1918. The movement gained impetus after the Armistice and over 1,200 offices were added in the next two years and in October, 1921, the total number of branch banks was 4,717; since when the tendency has been in the opposite direction. At the end of December, 1924, the number had been reduced to 4,028, and there are doubtless many more unproductive branches yet to be eliminated.

It is one of the advantages of a branch banking system, of course, that banking facilities are carried to small villages and remote sections of the country which would not be served by a unit independent type of banking system. When, however, branches of the chartered banks are needlessly duplicated, when branches are established by one institution solely as a checkmate to those of another,[116] the nation becomes saddled with a cost wholly disproportionate to the services rendered. Not that each and every branch of a chartered bank should be placed on a paying basis. Some must be carried by the others in order that all persons may enjoy the fullest banking facilities; just as in the

[115] P. 24.

[116] On this point see testimony of Mr. H. C. McLeod, *Interviews on the Banking and Currency Systems of Canada,* p. 35.

The estimate has been made that in 1920 perhaps half of the branches of the chartered banks were "in the red," were being operated at a loss.

Before the Banking and Commerce Committee of 1913 (p. 215), Mr. G. T. Clarkson, an accountant, testified that the Sovereign Bank and also the Farmers' Bank bled to death, so to speak, from the opening of branch offices.

United States the cost of the rural free delivery must be shouldered by other charges imposed by the Post Office Department. While this service does not pay in a pecuniary sense, it does pay in the sense of serving vital social needs. So in the case of branches located in sparsely settled communities. But where the chartered banks compete in duplicating such branches, the public, as emphasized by Professor D. A. McGibbon in his report on banking conditions in Alberta, may often bear the cost in higher interest rates: [117]

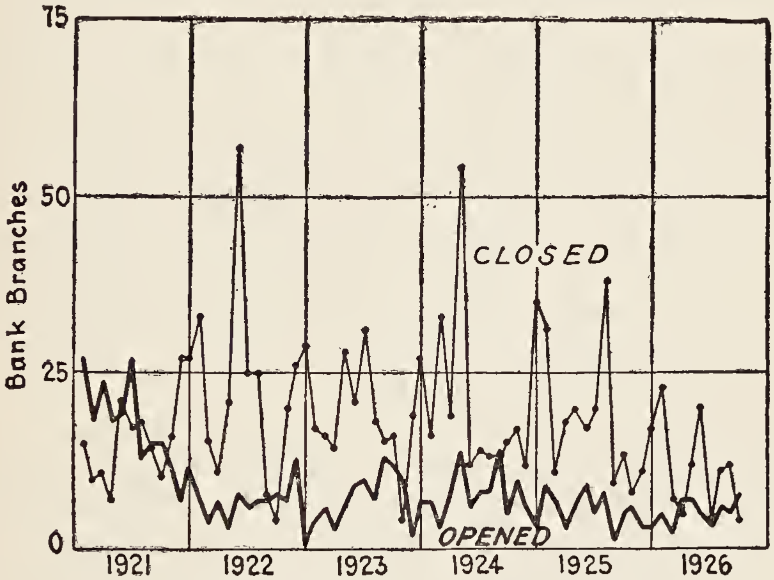
The position of affairs in these two towns in the northwestern part of the Province is as follows: Grande Prairie is the center of a fertile grain and stock district, well built up and comparatively well settled. It is at present the terminus of the railway into the Grande Prairie district. There are five banks in the town of Grande Prairie. Peace River Crossing, one hundred and fifty miles distant, is the gateway into another large and well settled district and has been until recently the terminus of the other branch of the E. D. and B. C. Railway. There is also considerable trade at this point arising from trapping, oil prospecting and river trade. Peace River Crossing has branches of three banks.

There was evidence presented to show that there are branches of more banks established at these points than the volume of business would warrant. If the cost of living is higher than at other points in the Province it is not manifest to the visitor. Yet the prevalent rate of interest is ten per cent. This is defended on the ground of the higher cost of doing business. When a center is so attractive as to induce a number of banks to establish branches there, I see no reason why the rate of interest should be distinctly out of line with other towns in the Province. The latest banks to establish branches at these points cannot plead particular enterprise in going in to serve a new district, nor can they plead that the banks with branches already established there are not able to provide sufficient accommodation. They can put forward no claim to special consideration for charging an especially high rate of interest. The presumption is by increasing the competition there is better or cheaper service to clients. But the only real competition at these points open to them to offer is a reduction in the cost of loans. This has not occurred. Apparently the only

[117] Pp. 15–16.

competition at present at Grande Prairie and Peace River Crossing is a competition that increases the overhead cost of the individual branches and divides the profits of business, done at a high cost, to the public. Substantially the public at these two points are paying a monopoly price for the services of the banks. There probably is no formal agreement between the banks to maintain a ten per cent rate, but their policy has worked out that way. I consider these towns have a legitimate grievance.

The chartered banks within recent years, fully aware of the problem, have been reducing the number of their offices, in part by closing some directly, and in part by the elimination following a merger of duplicating offices. The number opened and closed each month for the past several years is shown in the following chart: [118]



BRANCHES OPENED AND CLOSED EACH MONTH

This portrays graphically the efforts being made to rectify the overbanked condition of Canada, a costly burden for the people and one growing out of over-optimistic forecasts of a quick and phenomenal development of the West.[119]

[118] Data kindly supplied by *The Monetary Times* (Toronto).

[119] As banks expand in size and branches, problems of supervision are rendered much more difficult. This fact has persuaded Mr. H. C. McLeod,

As a concluding observation to this discussion of the overbanked condition of Canada, the following statement kindly sent the writer by Mr. W. A. Mitchell, an authority on this question, is included as being of considerable value and pertinence:

The question of the establishment of branch banks in Canada is one which it is very difficult to criticize empirically. The same demagogues who try to prove that high interest rates are directly caused by overbanking would be the first to complain of a monopoly if, through an agreement, banks restricted the opening of branches in new territories or allocated certain districts to each other. If one bank had a monopoly of the business in a certain district, how much more would such a situation be reflected in increased interest rates than when four or five banks are competing for business in a particular town. Digressing to speak of interest rates, I am sure that in certain sections of Western Canada rates should be very much higher than 10% in order to compensate for the losses which banks have taken in recent years. After a series of crop failures, it is no isolated experience to see from 35% to 60% of the loans of a branch "frozen" and to have a substantial proportion of loans develop into losses. I think that the rates of from 7% to 10% charged in Western Canada are no more than commensurate with the risks run in doing business in this one-crop section. Professor McGibbon in one breath charges monopolistic rate-fixing, whilst in the next he charges over-competition in establishing branches.

Undoubtedly the banks guessed wrongly in establishing branches so freely after the Armistice, expecting at that time a substantial flow of immigration from Europe. This did not come to pass in the same degree as expected, and the situation was aggravated by a series of bad crop failures and low prices for wheat. However, at this time there was unreasonable competition among the banks in opening branches, attributable perhaps to jealousies among the executives of the leading institutions, but it must be admitted that these men are endeavoring to operate the banks to the best advantage and are at no pains to accumulate or continue "red

---

expressed in his work *The Best System of Banking,* that the most efficient and profitable bank is that with few branches (not to exceed 50) and with moderate resources.

figure" branches. Peace River Crossing and Grande Prairie, particularly the former, tap vast stretches of virgin country into which many settlers have gone and which, I am sure, will be the center of the next great development in the West. If branches are retained there without adequate business at the moment, it is bcause the bank executives have vision enough to see that they will be required within a few years, but I have never noticed that banks endeavor to cover excessive overhead in a particular community, due to duplication of facilities, by increasing interest rates. It is, however, difficult to arrive at a fine adjustment of banking facilities to meet the needs of a country situated as is Canada, which has had in the last twenty years a tremendous growth which undoubtedly will be duplicated within the next decade, and which nevertheless has the prosperity of a large portion of its territory subject to the whims of nature. Possibly the best solution of the difficulty would be to have an impartial board composed of economists, business men and government officials who would have the final decision with regard to the opening or closing of branches, but who would have no power to force the closing of a branch if the bank wished to retain it. This would prevent an unreasoned rush into territories which offer attractive possibilities and yet would assure to certain communities adequate banking facilities which might be refused if in the course of time an actual operating monopoly of banking in Canada were arrived at.

THE NOTE ISSUE PRIVILEGES OF THE CHARTERED BANKS

The elasticity of the Canadian bank note, its ability to meet the seasonal requirements of trade, for moving the products of field and forest, has long been the delight and pride of advocates in the United States of the merits of an asset bank-note currency as opposed to a bond-secured currency of fixed volume as exemplified by those issued under the National Bank Act.[120] The latter

[120] For a rather vivid account of the expansibility of an asset currency, see *Interviews on the Banking and Currency Systems of Canada* (National Monetary Commission), p. 59.

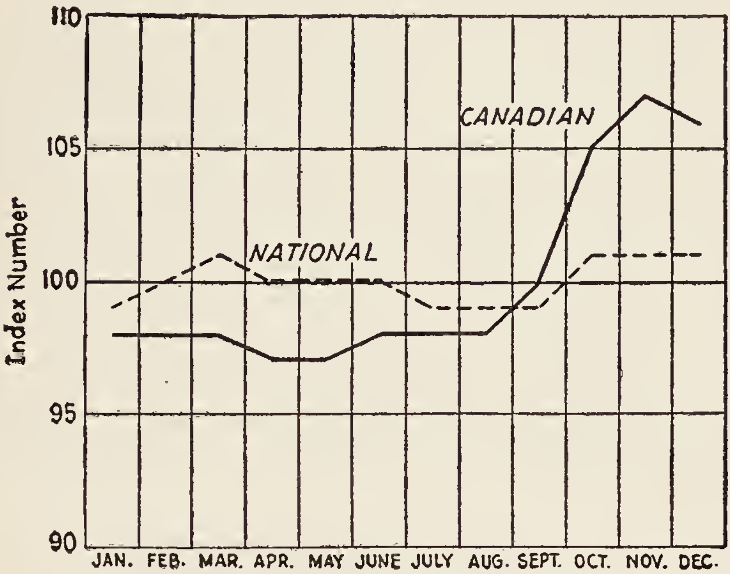
notoriously failed to fulfill the functions expected of a bank note issued as they were on an inelastic base, on Government bonds which obviously do not expand and contract in response to the seasonal, cyclical and secular requirements of commerce. And to this must be added the further factor that the rapid retirement of the Civil War debt gave the bonds a scarcity value that largely destroyed profits in circulation. Unless the incentive of profit be present, whether the circulation be an asset or bond-secured type, the element of elasticity tends to be lost. Only a moderate profit will induce banks to use their circulation privilege and in a banking system such as that possessed by Canada, competition for that moderate profit will bring about a prompt redemption of notes. As a result of very elaborate studies of seasonal variations in the supply of money in the United States, Professor Kemmerer concluded that any elasticity possessed by national bank notes was of a "chewing-gum variety." At another place in this same study [121] he indicates that national bank notes were less elastic than some of the other types of money presumably inelastic.[122] The chart on the opposite page illustrates graphically the sluggishness of the bank note of the United States when compared with the responsive nature of the Canadian note.

It was this characteristic of the Canadian note which convinced those who would reform the banking system of the United States during the nineties of the desirability of allowing national banks to adopt the same method of note issue. The plan indorsed by the American Bankers Association at a convention held in Baltimore in 1894, the proposals of Secretary of the Treasury J. G. Carlisle, and the elaborate report on contemporary banking and monetary conditions issued by the Indianapolis Monetary Commission, all embodied to a greater or less extent, as the essence of their recommendations, the Canadian method of note issue.

Essence of Canadian Plan. Bank notes in Canada were elastic because they were credit issues, highly profitable and convenient. Each and every chartered bank was then and is now allowed to issue notes to the amount of its paid-up capital which do not have to be secured by any special collateral held in trust,

[121] *Seasonal Variations in the Relative Demand for Money and Capital in the United States*, by E. W. Kemmerer, p. 153.
[122] *Ibid.*, p. 154.

as in the case of the national bank note, but are based simply on the general assets of the issuing bank. Thus they are related directly to commerce, production and agriculture, to the commercial operations of banks rather than to their investment operations or to the fiscal operations and needs of the government. Simple and effective as is this plan, its adoption in the United States was



Seasonal Elasticity of the Canadian Bank Note Contrasted with the Relative Inelasticity of the National Bank Note

blocked by the politicians of the older school[123] who were quite obdurate in their opposition to a "rubber-band" currency, as one was termed which was related to actual business needs.

Origin of Note Issue Privilege. The early banks established in Canada were privileged to issue notes under much the same conditions as were the first and second Banks of the United States whose charters served as the model for these institutions. When the first Dominion Bank Act was enacted in 1871, though some support had developed for the introduction of the bond-secured

[123] The large number of National Banks would have required some modification of the Canadian method of note issue to have given sufficient protection to the note holder. But nevertheless the basic principles of the Canadian plan could have been adopted in the United States and provided this country with an elastic currency.

bank note, these proposals were defeated. For as was explained in 1923 by the Hon. A. K. Maclean of Halifax, Chairman of the House of Commons Committee on Banking and Commerce, it was realized that the asset note was all-important in reducing the cost of opening and operating branches and in giving the nation better banking accommodations: [124]

> I think that originally the right of note issue was given to the banks for good reasons. In the early days in Canada it was desirable that bank branches should be opened in the interest of the development of the whole country. If a bank's capital had to be invested in bonds, as is required in the United States, and they had the right of note issue, they could hardly open up agencies. And the capital was not in this country at that time to carry on business in any other way. There is no doubt in the world that the right of note issue is of some advantage to a bank. At the same time it is of some advantage to the country, because our Canadian banks could not otherwise have had anything like the present number of agencies that they have opened throughout Canada.

There is no doubt that a generation or more ago the asset note currency played a really vital part in furnishing Canada with adequate banking accommodation and so in furthering the economic development of the Dominion. In fact in his testimony in 1913, Sir Edmund Walker declared that "the entire western bank system rests upon the note privilege: [125]

> . . . It rests also upon the fact that the tills of our western offices are filled with unused notes. For instance all banks, if they had not this privilege of issuing notes against circulation, would have to hold a considerable amount of actual specie in

[124] *House of Commons Debates,* June 19, 1923, p. 4092. Sir Frederick Williams-Taylor has estimated that the cost of putting out circulation and "keeping it alive" was 1.75% of the average amount outstanding. *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 331.

[125] *Minutes of Proceedings, Evidence, etc.,* 1913, p. 525. See also Sir Edmund Walker's testimony before the Banking and Commerce Committee of 1923, p. 528, and Sir Frederick Williams-Taylor's testimony, *ibid.,* pp. 329–330.

these western offices, and if they had to live only from the profit on deposits it would sweep the entire banking business of the West out of existence.

Of course it must be remembered that at this time the banks were fighting for the retention of a profitable privilege and that Sir Edmund's remarks were doubtless colored with self-interest. To the extent that the note privilege increased their profits, the banks could devote those funds to the establishment of branches. But surely the note privilege was not all-important for the Joint Stock Banks of England have been able to open thousands of offices without possessing the right to issue currency on any terms. Mr. C. E. Neill, Vice-President of The Canadian Bankers' Association, made much the same sort of statement as did Sir Edmund Walker before the Committee on Banking and Commerce in 1924: [126]

If we did not have the circulation privileges, we would have to draw Dominion notes; we would have to pay real money [as do the British Joint Stock Banks] and we would have to carry the small branches on real money instead of notes, and to that extent the small branches would become unprofitable.

By way of summary, then, the fact that the Canadian banks have been allowed to issue an asset currency, against which they are required to hold no fixed minimum reserve, has been a factor, but over-emphasized by the banks, in permitting an expansion of branches in communities where, without this privilege, it might have been impossible to maintain a branch.

Basic Provisions of Act Regarding Bank Note Issues. Up to the amount of its unimpaired paid-up capital, each chartered bank (subject to a tax of 1% a year) is permitted to issue bank notes in denominations of $5 and multiples thereof. These, as has been stated previously, are not secured by specially pledged securities, but are based solely on the general assets of the issuing bank on which they constitute a first lien in case of insolvency.

[126] P. 272. As a sidelight, it is interesting to note that while the asset note currency has made possible the multitude of branch offices in Canada, these small offices, by bringing about a prompt redemption of bank notes, have relieved to some extent the seasonal pressure on the currency. See *Interviews on the Banking and Currency Systems of Canada,* p. 186.

Each of the chartered banks must make all necessary arrangements for the circulation of its notes at par in any and every part of Canada and must establish agencies for the redemption and payment of notes wherever the Governor in Council has established branch offices of the Department of Finance for the redemption of Dominion notes and at such other localities as are from time to time designated by the Treasury Board. Each bank must receive its own notes at par at its Canadian branches, whether these are or are not designated places of redemption. In actual practice the notes are usually "redeemed" through the clearing houses.[127]

It is a double-acting force which accounts for the elasticity of the Canadian bank note. Each and every chartered bank desires to circulate its own notes to the maximum extent and at the same time to send to the clearing house for payment such notes of the other banks as may have fallen into its possession. The bank notes will thus remain in circulation at a given price level only so long as there is an actual need, only so long as they are required in facilitating trade and production. Once they are redundant, they will be retired.

THE BANK CIRCULATION REDEMPTION FUND. In the event of insolvency, the notes of the failed bank constitute a first lien on the assets of the institution, but, as a means of absolutely protecting the note holder, there was established in 1891 the bank circulation redemption fund. This was placed under the direction of the Treasury Board, which may make all such rules and regulations as it deems expedient respecting,

1. The time, manner, and place of payment of any monies therefrom;
2. The collection of all amounts due the fund;
3. The general management of the fund and accounts to be kept in connection therewith.

This fund is built up in the following fashion. Upon issuing the certificate of authority to a newly incorporated bank to begin

[127] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 572. In his testimony in 1924 Mr. Ross said that all banks operating under the Bank Act were accorded clearing house privileges. *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 327.

business, the Minister of Finance retains, from the monies of this bank in his possession,[128] the sum of $5000 to be held until the next annual adjustment when each bank must remit to the fund a sum equal to 5% of the average amount of its notes in circulation during the previous year, less such amount as is secured by deposits with the central gold reserves. On their contributions to the circulation fund, held solely for the purpose of redeeming the notes of failed banks, the chartered banks receive interest at the rate of 3% per annum.[129] In the event of a failure, the notes of the insolvent bank begin to bear interest immediately at the rate of 5% per annum to such time as may be set for their payment. In case the notes are not paid from the liquidated assets of the bank, within two months from failure, the Minister then makes arrangements for their payment from the redemption fund plus accrued interest. Interest ceases upon and from the date named by the Minister for payment. In case the payments from the fund exceed the amount contributed by the bank suspending, the other banks must, on demand, make good to the fund the amount of the excess, proportionately to the amount each has contributed to the fund, provided that:

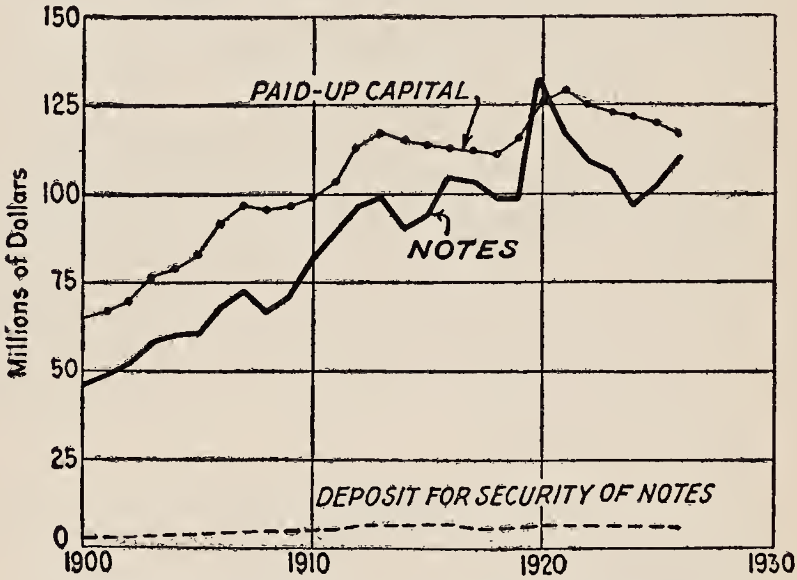
(a) each bank shall be called upon for payments not to exceed in any one year 1% of the average amount of its notes in circulation;
(b) such circulation shall be ascertained in such manner as the Minister may decide whose decision is final.

The bank circulation redemption fund has made the Canadian bank note a mutual guarantee by the banks, has given it absolute safety and protected the note holders against loss.

THE CROP-MOVING PROVISIONS. In the chart on the next page are given the circulation (less deposits of gold and Dominion notes in the central gold reserves) of the chartered banks, their paid-up capital and their deposits with the Minister of Finance as security for the note circulation.[130] It will be noted that the circula-

128 For explanation of this see p. 347.
129 The contributions made by the banks go into the Consolidated Revenue Fund, which is used for current expenditures by the Government but on which it has a statutory liability.
130 Source of data: *Returns of the Chartered Banks.* Data are given as

tion has increased at a faster rate and has gradually crept up on the amount of the bank's paid-up capital. This has left a smaller and smaller amount of slack and made the bank notes less and less elastic, proportionately less capable of expanding to meet the needs of trade and agriculture and indeed less of an asset currency. It was precisely this situation that led to the passage of the act of 1908 providing for additional circulation during the crop-moving



NOTES IN CIRCULATION (FROM 1914 LESS DEPOSITS IN CENTRAL GOLD RESERVES), COMPARED WITH THE GROWTH OF THE PAID-UP CAPITAL OF THE CHARTERED BANKS

seasons. Mr. D. R. Wilkie, General Manager of the Imperial Bank, stated to the members of the National Monetary Commission[131] that the authorized limit of circulation was exceeded in 1906 when the amount permitted by law was insufficient to meet the crop-moving demands. In the 1913 hearings, Sir Edmund

---

of July 31 of each year. Mr. H. C. McLeod indicated in one of his writings that when the circulation of the chartered banks reached an amount equal to 75% of their paid-up capital, the smooth working of the banking system was impaired. From 1900–1907 there was constant pressure. See *The Best System of Banking,* p. 49.

[131] *Interviews on the Banking and Currency Systems of Canada,* p. 140. Mr. Henry T. Ross writes that it was in Nov. 1907 when the authorized limit of circulation was exceeded and not in 1906 as Mr. Wilkie had stated.

Walker further substantiated Mr. Wilkie's contention that to meet the seasonal demands of the West, Dominion notes had been paid out and on occasion money had been imported from the United States.[132] This method of increasing the volume of currency was not always feasible, owing to occasional monetary stringencies in the United States. Again in 1907 there was a shortage of money in the fall [133] which was relieved only through an overissue on the part of the banks. The economic development of the West, the increase in population, the growing importance of the extractive industries, the increasing production of wheat gave rise to the need for an increased circulation,[134] and the paid-up capital was not sufficiently large to permit of an increase of a sufficient size to meet the country's needs. Why then, might one quite fairly inquire, did the banks not increase their capital? The bankers explained that an increase in capital would be difficult.[135] The investment funds in Canada were limited and little demand existed for their stock in England and the United States. Since it seemed difficult to increase the amount of the paid-up capital and to provide for elasticity in this fashion, two courses remained, either (1) to proportion circulation to assets instead of to capital, or (2) to provide for some sort of " emergency " currency which would in part be a negation of the asset currency idea. The former method was supported by Mr. H. C. McLeod,[136] at one time General Manager of the Bank of Nova Scotia, and by a few others, but received no support from the Government. It was the second method which received its favor.

By the provisions of the act, as it stands now, the banks may, from September 1 to February 28, issue additional notes not to exceed 15% of their combined unimpaired paid-up capital and surplus.[137] On the amount of such notes in circulation the banks

[132] *Minutes of Proceedings, Evidence, etc.*, 1913, p. 516.
[133] *Ibid.*, p. 475.
[134] *Ibid.*, p. 640.
[135] *Ibid.*, p. 258.
[136] *Ibid.*, p. 149. See also p. 519 where Sir Edmund Walker indicated that it was more scientific to base notes on assets but that public opinion was not ready for this change.
[137] By the 1908 legislation the emergency currency was to be issued from October to January which period was lengthened from September to February (inclusive) by an amendment passed in 1912. (*The Canada Year Book*, 1925, p. 827.)

are to pay interest to the Minister of Finance at such rate, not to exceed 5% per annum, as may be fixed by the Governor in Council. Thus " emergency " currency was provided, the intent of which was to meet a wholly normal, recurrent, seasonal need. The manner in which this legislation relieved the seasonal pressure was described by Mr. Henderson, vice-President of the Bank of Toronto, in his testimony before the Banking and Commerce Committee in 1913: [138]

The emergency circulation serves a very useful purpose. There are at the present time in our country circumstances that require such an enlargement of circulation for a short period of time as provided for by the emergency circulation. The members will probably all quite understand the reason for that; from September up to the end of November, when the movement of the harvest in the lower provinces as well as the western provinces takes place, there is put out over the counters of the bank every day very large sums of money for the purpose of paying for the amount of grain brought in and delivered at the elevators and warehouses in these places at that time. That money is paid out so that the circulation increases from $20,000,000 to $30,000,000. The banks are permitted to exceed the limits of their circulation upon condition that they redeem it absolutely at the time fixed by the Act. The way that works out is that the circulation goes up day by day, month by month, until it reaches its maximum, about the middle of November, and immediately it commences to return as the money finds its way back as payment on land, implements, the interest on mortgages, the settling of store accounts and things of that kind, and it goes back again to its normal as a rule by the end of the time fixed in the Act. The gold reserve would not meet the necessities of that particular case because we would have to put out actual money in order to increase our circulation by $30,000,000. I think the gold reserve would not so fully meet the requirements of the country as the emergency circulation does at that particular season. But the country is

[138] *Minutes of Proceedings, Evidence, etc.*, 1913, pp. 252–253. In a letter addressed to the writer Mr. B. J. Roberts, Secretary, Department of Finance, Canada, stated that there were no published statistics on the amount of the " emergency " currency issued or on the revenue derived by the Government.

growing, with a yearly increase of over 400,000 in our population, and we will require an additional amount of circulating medium to carry on the business of the country, and it is quite possible we may find our requirements growing a little faster than the Act will allow us to expand our circulation against capital, and for that reason I approve of the proposal.

THE CENTRAL GOLD RESERVES. In the 1913 revision of the Bank Act, a provision was inserted permitting the chartered banks to issue bank notes beyond the amount of their paid-up capital and that allowed by the emergency legislation of 1908, provided that the excess were secured by current gold coin or Dominion notes deposited in the central gold reserves. The gold reserves are administered by a board of four trustees, three appointed by the Bankers' Association, with the approval of the Minister of Finance, and the fourth appointed by the Minister directly.[139]

The establishment of this reserve had long been urged on the Government by the more thoughtful of the Canadian bankers. In his address before the annual meeting of the shareholders of the Bank of Nova Scotia in 1910, Mr. H. C. McLeod indicated that as early as 1902 his institution had advocated the issuance of increased circulation against deposits of gold: [140]

The system of bank note circulation, improved and adopted in 1890, is the notable point of excellence in Canadian banking. If this excellence is to be maintained, the privileges of circulation will need to be enlarged more rapidly than appears feasible through probable additions to bank capital. These privileges are so nearly exhausted that banks freely circulate one another's notes. With the reaching of that point, elasticity, the most admirable feature of the system, ceases to fully exist. Apparently, capitalists are not anxious to invest in bank shares, and it therefore seems to the interest of the country that there should be an

139 In 1924, the trustees were the Royal Trust Company, the Bank of Montreal, the Canadian Bank of Commerce, and the Royal Bank. The assets are placed in the vaults of the Royal Trust Company, Montreal. *Proceedings of the Select Standing Committee on Banking and Commerce*, 1924, pp. 275, 354, and 355.

140 *Seventy-Eighth Annual Report*, Bank of Nova Scotia, p. 19. The practice mentioned by Mr. McLeod of the banks paying out each other's notes does not prevail at the present time.

enlargement of the privileges of circulation, either based on a portion of the reserve fund or on the deposit with the Government of gold against notes circulated in excess of the present circulation limits. From the outset, we have opposed the emergency circulation provisions of the Bank Act, as the provisions are of no use to this institution, which has not yet thought it advisable to pay 5% interest for the privilege of note circulation. Eight years ago we sought an amendment to the Bank Act permitting increased circulation against deposits of gold with the Government. A provision of that kind would tend towards an increase of specie in the country and would form the basis of operations by conservative institutions. The emergency circulation has been but little used by any of the banks and in the future it is more likely to be availed of by the needy, to whom the rate of interest is a secondary consideration: it cannot be a stable foundation for note circulation by conservative banks.

Later, in the proceedings before the Banking and Commerce Committee in 1913 the need for this legislation was explained in considerable detail by Sir Edmund Walker: [141]

I have personally advocated among bankers for at least seven or eight years such legislation as this. There are three conditions that face us at the present time in Canada in connection with the circulation, one is the necessity almost every year of issuing up to the entire amount which we are authorized to issue against our paid-up capital. The second is the necessity of using the emergency circulation as a circulation of exactly the same kind as that against the capital, during the period when the crop is being moved. But we have another condition here altogether different from these. It is the condition where the bank is using its full circulation against capital, and is using its emergency privilege, (or does not use it because it does not wish to pay interest to the Government for using it), and requires still more circulation for its customers. It has the money but has not the actual counters to do business with. It has gold but it needs bank notes. In all other countries in the world, if the bank has circulating power such as we have it is not called upon to put out the

[141] *Minutes of Proceedings, Evidence, etc.*, 1913, pp. 515–516.

notes of any other bank or the notes of the Government or any other kind than its own notes, so long as it has actually the specie to secure those notes. We have been in the condition I have described more than once in connection with the moving of grain in the West; we have been in the condition of having the money but not having the actual five- and ten-dollar bills on the counters with which to do the business; we have had to ask the Government to provide the counters and keep this gold for us, to warehouse the gold and to assume all the responsibility and the expense which is certainly a very wrong thing, and the Government will not be satisfied to do it forever. Therefore I conceived the idea of a Central Gold Reserve, the custody of which will be as safe as the Bank of England, and that as long as the bank had in that reserve a five-dollar gold piece it should be able to issue a five-dollar bill against it.

In addition to Sir Edmund Walker, another banker, Mr. Pease, General Manager of the Royal Bank, also emphatically indorsed[142] the proposed change indicating that his institution would be glad to avail itself of the opportunity of depositing gold and taking out additional circulation as it had reached a limit in the matter of circulation. The adoption of this provision marked a most important change in the Canadian note issue. While originally it had been related to bank assets, it was now, in part at least, tied to gold. No longer could it be called a pure bank-note-asset currency.

The table on page 388 indicates the extent to which the Canadian banks availed themselves of the central gold reserve provisions prior to the outbreak of the war.[143] The increase in the deposits between September and October of 1913 is reflective of the rôle played by seasonal forces which apparently had spent themselves by the first of the year. From July, 1914, on the amount deposited was governed almost wholly by considerations of war finance.

The Finance Act. The events leading to the passage of the Finance Act in Canada are graphically described by Sir

142 *Minutes of Proceedings, Evidence, etc.,* 1913, p. 537. See also p. 321 where Mr. James B. Forgan, President of the First National Bank, Chicago, gave his reasons for supporting the change.

143 Source: *Returns of the Chartered Banks.*

Date	Deposits in Central Gold Reserves
1913, July 31,..........	$ 0
August 30,..........	0
September 30,........	3,350,000
October 31,..........	7,373,977
November 29,.......	8,100,000
December 31,........	7,597,066
1914, January 31,.........	3,500,000
Feburary 28,........	3,000,000
March 31,...........	3,500,000
April 30,............	3,250,000
May 30,............	3,550,000
June 30,............	3,050,000

Thomas White, who was the Minister of Finance during the hectic days following the outbreak of the World War, in a work entitled "The Story of Canada's War Finance."[144] As he describes the situation, the closing of the stock exchanges and the crises which developed in Europe and the United States during the latter part of July, 1914, induced a general feeling of uneasiness, of apprehension, a panicky psychology in the Dominion. Heavy withdrawals of gold took place in Toronto and Montreal and it seemed not at all improbable that these might develop into runs upon the banks. The situation became so critical that on Monday, August 3, the leading members of The Canadian Bankers' Association, headed by its President, Mr. D. R. Wilkie, arrived in Ottawa to confer with Sir Thomas White regarding remedial measures. It was recognized that the cash reserves of the banks were insufficient to meet the drain and that their other reserves in the form of call loans in New York and London were not available. To prevent insolvencies occasioned by the inability of the banks to withstand withdrawals in Dominion notes or gold, it was agreed that they should be allowed to meet their depositors' demands with their own notes. The bank notes were in reality given the legal tender power as between a bank and its creditors though not as between individuals. In order to insure that the banks would have sufficient bank notes, it was provided:

[144] Published by the Canadian Bank of Commerce, 1921. Mr. Pease of the Royal Bank had long been a proponent of a central bank to meet such a situation. His plan was opposed by the Bank of Montreal and the other chartered banks were lukewarm.

(1) that the emergency circulation might be issued the entire year instead of simply during the crop-moving period. This provision lapsed on August 31, 1920, and was not renewed.

(2) that the Government would issue Dominion notes (charging interest on such advances) to the banks against deposits of securities pledged with the Department of Finance. The intent of this was to permit the chartered banks to secure additional amounts of Dominion notes which could then be placed with the central gold reserves and used as the basis for an increased bank note circulation.

These proposals or measures were embodied in an Order-in-Council of August 3, signed by the Governor-General, and issued to the public on the morning of the day England declared war on Germany. A week later (August 10) another Order-in-Council suspended the redemption in specie of Dominion notes. These had the desired effect of providing sufficient currency to meet the needs of the public and of protecting the gold reserves of the Dominion and of checking the panic. At the August session of Parliament, the Orders-in-Council were legalized through the passage of the Finance Act.[145]

In order to provide for the increased issues of Dominion notes, by chapter 4, acts of 1914, it was provided that the amount to be issued upon a 25% gold reserve was to be increased from 30 to 50 millions of dollars. Still later, by chapter 4, acts of 1915 (confirming Orders-in-Council of September, 1914) the Government was authorized to make an extra issue of Dominion notes up to $26,000,000 with no reserve of gold. Of these $16,000,000 were to be secured by the pledge of specified Canadian railway securities, guaranteed by the Government. This legislation still continues as well as the provision of the Finance Act (1914) that in case of war, panic, etc., Dominion notes may be issued to any amount against approved securities.

THE TREASURY BOARD. The Finance Act is administered by

[145] For a full discussion of Canada's monetary and banking experience during and since the war, see the *Federal Reserve Bulletin* for July, 1926, pp. 534–537. This article served largely as the basis for the present discussion.

the Treasury Board which consists of the Minister of Finance, five members of His Majesty's Privy Council (appointed by the Governor-General) with the Deputy Minister of Finance as Secretary, ex-officio.[146] This group determines the kind and amount of securities to be accepted for advances within the limitations of section 2 of the 1923 supplement to the Finance Act of 1914. The securities or paper made eligible by law are: [147]

(a) treasury bills, bonds, debentures, or stocks of the Dominion of Canada, United Kingdom, any province of Canada, and of any British possession;
(b) public securities of the Government of the United States;
(c) Canadian municipal securities;
(d) promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax, or other commodity;
(e) promissory notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes and which have been used or are to be used for such purposes.

Maturity of Advances. Advances on the basis of securities are made for a period not to exceed one year, while all pledged promissory notes or bills of exchange must mature within a period of six months. No advances may be made on paper which originated for the purpose of carrying or trading in securities or for capital expenditures.[148] These prohibitions resemble closely those to be found in the Federal Reserve Act and in fact in the charter of nearly every central bank.

Margin Requirements. As explained by Mr. Saunders before the Banking and Commerce Committee of 1924,[149] advances are extended to various proportions of the value of the pledged securities. Under the provisions of Section 12 of the Act a

[146] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, pp. 344 and 347. The weakness of a board chosen in this fashion is that it is likely to be composed of men untrained in the judgment of securities or bankable paper.

[147] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 343. *Select Standing Committee on Banking and Commerce,* 1928, p. 1.

[148] *Federal Reserve Bulletin,* July, 1926, p. 535.

[149] See pp. 344–345.

Treasury Board Minute of May 30, 1923, authorized the margins by which the different classes of securities deposited should exceed in value the amount of the loans. The schedule is as follows:

Against Dominion of Canada Treasury Bills and Bonds — advances to be made dollar for dollar of the par value;

Against bonds guaranteed as to principal and interest by the Government of the Dominion of Canada — a margin of 10 per cent on the market value;

Against British Government Treasury Bills and Bonds — a margin of 10 per cent on the market value;

Against short-term securities, not exceeding one year, of the Governments of the Provinces of Canada — a margin of 10 per cent on the market value;

Against other securities of the Provinces of Canada and securities carrying the guarantee, as to principal and interest, of the provinces of Canada — margin of 15 per cent on the market value;

Against bonds of Canadian municipalities — a margin of 20 per cent on the market value;

Against assignments secured by documents — covering grain, flour, cereals and feed — a margin of 25 per cent;

* * *

Rates of Interest Charged. From 1914 to November 1, 1924, with one exception, the rate charged on advances ruled continuously at 5% at which time it was reduced to 4¼%. This exception occurred in 1916 when the banks purchased certificates bearing 3½% interest from the Imperial Treasury and were allowed to borrow on these from the Dominion at the same rate. The total so borrowed amounted to $56,457,000. This particular arrangement was not repeated as the banks, so Mr. Saunders declared, were "afraid of it,"[150] meaning perhaps that they were afraid of the inflationary effects. On November 1, 1927, the rate was reduced to 4% and a month later, on December 1, to 3¾%. On June 8, 1928, the rate was raised to 5%.

Manipulation of the Interest Rate. There is no suggestion

[150] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 348. For further discussions see *ibid.,* 1923, p. 132.

in the Finance Act that the rates charged by the Treasury Board should be altered with a view of affecting the business situation, of preventing inflation or deflation, of ironing out cyclical sweeps in business, of preventing or checking speculation, or of performing the functions expected of the rate of discount of a central bank. Nor has the Treasury Board in its administration of the Act considered changes in the interest rate in the light of stabilizing conditions. In testifying in 1924, Mr. George Edwards, chartered accountant, stated quite definitely that the rate charged was not changed to check inflation or deflation, or for the purpose of stabilizing economic conditions.[151] As noted in the previous paragraph the rate ruled at 5% until in November of 1924. The lack of change during this period when interest rates through the world soared skyward, when the discount rate at the Federal Reserve Bank of New York ruled at 7% for nearly a year, is sufficient evidence in itself that the Treasury Board did not look upon the rate as a central bank would upon its rate of discount. That this was not the case was an error in administration. The rate should have fluctuated with economic and financial conditions.[152] Other-

[151] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 46. See also pp. 349 and 375.

[152] In reading this paragraph, Mr. Henry T. Ross, Secretary of The Canadian Bankers' Association, took exception to this statement and defended the non-fluctuating rediscount rate in the following terms:

"After the war had been in progress for some time, probably early in 1915, Sir Thomas White, anxious in the public interest to keep financial matters as much as possible in *statu quo,* having in mind the rate on loans which he foresaw he would have to ask the Canadian public to subscribe, requested the banks not to increase the interest rate to their customers. While there was no distinct promise, the implication was that the rate under the War Finance Act of 5% would not be raised by the Treasury Board of which Sir Thomas was the Chairman. In consequence the banks did not raise their rates during the continuance of the war — something without parallel among the Allied nations — to the advantage of the whole country, and the 5% rate under The Finance Act remained constant too. Instead, therefore, of being a matter of criticism, such as the paragraph implies, the foresight of Sir Thomas White in this particular, and the relative action by the banks, should in my judgment be commended."

The same error was made in the United States, where under the influence of the Treasury Department, the rediscount rates at the Reserve Banks were held to artificially low levels so as not to exceed the interest borne by the war bonds. This enabled banks buying or lending on war bonds to borrow on these at the same rate borne by the bonds from the Reserve Banks. This policy contributed much to war inflation in the United States.

wise a low rate, lower than market rates of interest and especially lower than the call loan rate in New York would be an inducement towards inflation. When the question was put to Sir Edmund Walker whether inflation would not continue under the Finance Act, he replied as follows: [153]

Q. Yesterday, Sir Edmund, speaking of the reserve bank, you stated that it had been considered in the States a means of inflation? — A. Yes.

Q. What difference is there between the operations of a Federal Reserve Bank and the issue of notes under the Finance Act? What difference is there in principle? — A. There is no difference in principle.

Q. Then why would not inflation continue under the Finance Act? — A. In the United States there are 26 or 27 thousand banks and each one of them is an individual, and if a member of the Federal Reserve Bank, must apply to it for its particular needs. In Canada, with 17 banks, an enormous amount of the rediscounting that would take place in the United States has been managed within the bank itself. The instances of a Canadian bank needing aid from the Finance Act have not only been relatively rare, but they have been confined to the actual moving of the crops and have been paid off during the year. Now in the United States a vast amount of rediscounts appear in the Federal Reserve system which go on, they are not stagnant, but they go on from year to year, and I mentioned, if you will remember, that they had to finance the war and that they loaned on an enormous amount of Government bonds in that connection. If you will take a small bank in the country with a capital which enables it to lend two or three hundred thousand dollars, and you enable that bank to go to the Federal Reserve Bank and get one or two or three hundred thousand more.

Q. They have to put up security, don't they? — A. Certainly.

Q. And rather strong security? — A. No, no, not at all like the security we put up with the Finance Department at Ottawa, no relation at all. Their system enables them to finance many undertakings which could not otherwise have been financed at all,

153 *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 534.

and that is what I mean by inflation. It is a question of proportions entirely.

In reading this testimony one is puzzled by Sir Edmund's assertion that the instances of Canadian banks needing aid have been few and confined to seasonal needs. While it is true that their largest borrowings have often occurred in the fall, some of the Canadian banks, nevertheless, have been fairly constant borrowers and were such particularly during the war in order to assist meeting the fiscal needs of the Government.

Advances Under the Finance Act. The first return of the chartered banks containing any information relative to the amount of advances under the Finance Act was that of October 31, 1923, the first issued in conformity with section 112, of the Bank Act of 1923. The amount of the advances extended to each of the chartered banks to November, 1927, are given in the table on pages 395 and 396.[154]

From this table it will be noted that the Bank of Montreal, the Bank of Nova Scotia, the Imperial Bank, and the Weyburn Security Bank, at least since the data have been made public, have not borrowed under the provisions of the Finance Act. Of the borrowing banks Molson's, the Banque Nationale, the Union, the Bank of Hamilton, the Sterling Bank and the Standard have all been absorbed by or merged with other institutions. Of the banks still in existence, the Dominion and Royal have been the most consistent borrowers. The borrowings of the Bank of Toronto and of the Canadian Bank of Commerce have been more intermittent and were occasioned doubtless to some extent by seasonal requirements. During the period covered by this table, the Royal Bank has borrowed, in all, 235 millions of dollars, the Dominion 126.1 millions and the Standard Bank 123 millions. The largest borrowed during any one month by all the banks amounted to 37.8 millions of dollars during April, 1924. In the monthly aggregate figures there is apparently little noticeable seasonal fluctuation, but this may emerge as data for a longer period become available.

[154] Source of data: *Returns of the Chartered Banks.*

ADVANCES UNDER THE FINANCE ACT (1914)

(000 omitted)

Date (Last banking day of each month)	Banque Canadienne Nationale	Bank of Toronto	Molson's Bank	Banque Nationale	Union Bank of Canada	Canadian Bank of Commerce	Royal Bank of Canada	Dominion Bank	Bank of Hamilton	Standard Bank	Banque d'Hochelaga	Sterling Bank of Canada	Total for All Banks
1923													
July	......	......	......	......	....	....	....	......	......	......	......	......	....
Aug.	......	......	......	......	....	....	....	......	......	......	......	......	....
Sept.	......	......	......	......	....	....	....	......	......	......	......	......	....
Oct.	......	......	$1,000	......	$12,500	....	....	$2,800	$3,250	$3,000	......	$3,800	$26,350
Nov.	......	......	......	$ 400	8,100	$8,000	....	2,800	1,000	4,000	......	4,200	28,500
Dec.	......	$2,500	......	2,000	7,500	4,500	....	4,000	2,500	3,000	$1,000	4,200	31,200
1924													
Jan.	......	......	......	1,990	8,500	6,000	....	1,500	......	2,000	500	4,200	24,690
Feb.	......	2,000	......	1,972	9,500	....	....	4,500	......	......	......	3,900	21,872
Mr.	......	2,000	2,000	1,328	8,000	....	....	4,500	......	1,500	......	3,700	23,028
Apr.	......	2,000	2,000	......	9,000	7,000	$5,000	3,500	......	2,000	4,000	3,300	37,800
May	......	......	2,000	......	3,000	3,500	5,000	1,500	......	2,500	4,000	3,800	25,300
June	......	......	1,000	......	1,000	5,500	2,000	2,800	......	2,000	2,000	2,900	19,200
July	......	900	1,000	......	6,500	....	2,000	2,700	......	2,500	1,500	2,600	19,700
Aug.	......	100	1,000	......	7,000	....	5,000	4,000	......	3,200	......	2,400	22,700
Sept.	......	......	......	......	6,500	....	5,000	2,000	......	3,000	......	2,900	19,400
Oct.	......	2,100	......	......	....	10,000	5,000	2,500	......	2,500	......	2,100	24,200
Nov.	......	......	......	......	....	6,000	....	3,000	......	1,500	......	2,200	12,700
Dec.	......	300	......	......	....	8,000	12,000	4,300	......	3,000	......	2,800	30,400
1925													
Jan.	......	......	......	......	....	8,500	3,000	4,800	......	2,300	......	......	18,600
Feb.	......	4,500	......	......	2,400	....	9,000	4,700	......	700	......	......	21,300
Mr.	$1.000	2,900	......	......	....	2,000	5,000	800	......	3,000	......	......	14,700
Apr.	1,500	1,000	......	......	1,000	....	8,000	1,800	......	4,300	......	......	17,600
May	1,500	......	......	......	....	....	10,000	2,800	......	2,300	......	......	16,600
June	3,000	......	......	......	1,000	....	12,000	600	......	3,200	......	......	19,800
July	......	......	......	......	3,250	....	12,000	2,500	......	2,500	......	......	20,250

ADVANCES UNDER THE FINANCE ACT (1914) — *Continued*

(000 omitted)

Date (Last banking day of each month)	Banque Canadienne Nationale	Bank of Toronto	Molsou's Bank	Banque Nationale	Union Bank of Canada	Canadian Bank of Commerce	Royal Bank of Canada	Dominion Bank	Bank of Hamilton	Standard Bank	Banque d' Hochelaga	Sterling Bank of Canada	Banque Provinciale du Canada	Total for All Banks
Aug.......	$ 500	......	......	......	......	......	$14,000	$2,000	......	$3,700	......	......	......	$20,200
Sept.......	......	......	......	......	......	$1,000	7,000	1,000	......	2,200	......	......	......	11,200
Oct.......	......	$1,900	......	......	......	......	10,000	2,000	......	1,750	......	......	......	15,650
Nov.......	......	......	......	......	......	......	......	2,500	......	4,500	......	......	......	7,000
Dec.......	......	......	......	......	......	......	14,000	......	......	750	......	......	......	14,750
1926														
Jan.......	......	......	......	......	......	......	8,000	1,000	......	......	......	......	......	9,000
Feb.......	......	......	......	......	......	......	......	1,000	......	1,000	......	......	......	2,000
Mr.......	......	1,000	......	......	......	......	6,000	1,500	......	1,500	......	......	......	10,000
Apr.......	......	4,500	......	......	......	7,000	......	6,500	......	3,000	......	......	......	21,000
May......	......	600	......	......	......	10,000	......	2,700	......	2,500	......	......	......	15,800
June......	5,500	......	......	......	......	8,000	......	3,300	......	3,000	......	......	......	19,800
July......	6,000	......	......	......	......	3,500	......	3,500	......	3,000	......	......	......	16,000
Aug.......	2,000	......	......	......	......	3,000	2,000	4,000	......	3,300	......	......	......	14,300
Sept.......	......	......	......	......	......	3,000	10,000	3,500	......	2,300	......	......	......	18,800
Oct.......	......	......	......	......	......	7,000	10,000	4,800	......	3,000	......	......	......	24,800
Nov.......	......	1,500	......	......	......	5,000	......	3,400	......	3,250	......	......	......	13,150
Dec.......	......	......	......	......	......	......	10,000	......	......	1,500	......	......	......	11,150
1927														
Jan.......	......	......	......	......	......	......	10,000	......	......	......	......	......	......	10,000
Feb.......	......	1,000	......	......	......	5,000	10,000	......	......	500	......	......	......	16,500
Mr.......	......	1,500	......	......	......	8,000	......	1,000	......	2,000	......	......	......	12,500
Apr.......	......	3,500	......	......	......	11,000	......	1,000	......	4,500	......	......	$ 800	20,800
May......	2,500	2,000	......	......	......	......	......	500	......	2,250	......	......	1,450	8,700
June......	9,500	......	......	......	......	......	......	2,000	......	3,000	......	......	1,450	15,950
July......	10,000	1,000	......	......	......	1,000	......	2,000	......	2,000	......	......	1,050	17,050
Aug.......	8,500	......	......	......	......	5,000	5,000	2,500	......	3,500	......	......	1,450	25,950
Sept.	7,000	......	......	......	......	3,000	7,000	1,500	......	3,000	......	......	1,250	22,750
Oct.......	2,000	1,000	......	......	......	6,000	12,000	4,000	......	4,500	......	......	1,250	30,750
Nov.......	......	......	......	......	......	9,000	......	4,500	......	3,500	......	......	......	17,000

For data regarding the amount of advances prior to October, 1923, we are forced to rely on the figures presented by Mr. Saunders in his testimony before the Banking and Commerce Committee in 1924. There are no others published excepting those to be found in the *Public Accounts* which give the advances as at the end of each fiscal year, on March 31. These are of less significance than the statistics presented by Mr. Saunders,[155] which give the maximum amount of advances during the year, which quite frequently occurred during the crop moving period.

Month	Maximum amount of advances in each year
November, 1914	$ 12,767,500.00
January, 1915	10,720,000.00
February, 1916	2,777,135.00
October, 1917	52,170,000.00
November, 1918	116,500,000.00
November, 1919	112,957,000.00
November, 1920	123,689,025.00
January, 1921	108,707,960.75
January, 1922	60,619,769.74
October, 1923	40,020,000.00

The largest amount of advances took place in November, 1920, the reason for which was explained by Mr. Saunders as follows: [156]

Q. You mentioned that the Finance Act was being used a great deal a few years ago, and today it was being used little, comparatively speaking? — A. Yes.

Q. Can you tell me when it is used more, when the country is prosperous, or when we have adverse conditions? — A. It would be used more when the country is prosperous. In November, 1920, as I told you this morning, that was the peak of all the years. The banks had loans under the Finance Act amounting to $123,000,000. If you will recall, Mr. Spencer, in 1920 everything was booming; it was after the war and there was inflation

[155] *Proceedings of the Select Standing Committee on Banking and Commerce*, 1924, p. 346.
[156] *Ibid.*, p. 376.

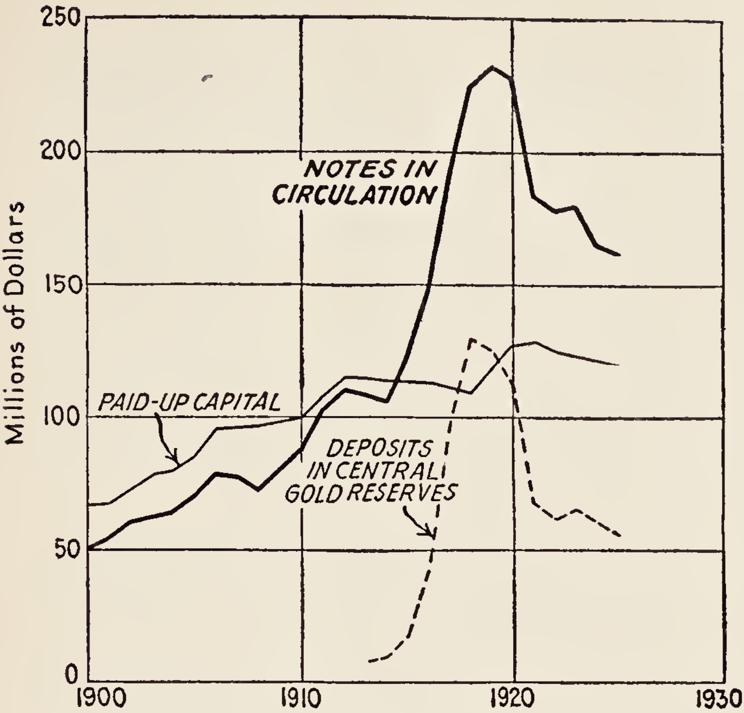
in prices and business was booming a little, which naturally required more money. The dollar was worth less, and it required more dollars to carry on business.

Q. That was my opinion. Then, Mr. Saunders, you would say that the banks find it profitable to borrow through the Finance Act? — A. I think they find it more useful in being able to meet business that is offered to them, when their own resources would not permit. They cannot find it very profitable, because they are so eager to get it back into our hands to save the five per cent interest rate.

Purpose of Advances. In answer to a series of questions Mr. Saunders indicated that the banks usually borrowed to meet adverse clearing house balances. For this purpose they would withdraw their borrowings in large Dominion notes, "large legals," and would repay as quickly as circumstances would permit.[157] Of course the banks receiving the large legals through the clearing houses or the banks borrowing would be entitled to deposit these in the central gold reserves and issue an equivalent amount of their own bank notes. That this has been the case is demonstrated in the chart on the opposite page which compares the note circulation of the chartered banks with their paid-up capital and deposits in the central gold reserves. The evolution of the Canadian bank note has been quite far-reaching. Originally it was a true asset currency, particularly in the nineties, very elastic and responsive to trade and business need. Then as the year-to-year growth of the notes crept up on the amount of the paid-up capital, their elasticity became impaired and the law of 1908 permitting an emergency circulation was the result. In 1913 their issue against deposits of gold and Dominion notes was permitted and a year later issues of Dominion notes were permitted against certain acceptable securities. It was on the basis of the increased issues of Dominion notes based on securities that the war expansion in the bank notes occurred.

Amount of Interest Paid to Government. In another part of his testimony Mr. Saunders declared that the Dominion Gov-

[157] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. 349. See also statement by Mr. Ross, *ibid.,* p. 321, and by Mr. C. E. Neill, p. 282.



THE NOTES OF THE CHARTERED BANKS IN RECENT YEARS HAVE BEEN BASED TO A LARGE EXTENT ON DEPOSITS IN THE CENTRAL GOLD RESERVES

ernment had not lost a penny in these advances and that its interest return in dollars had been as follows: [158]

Year ended March 31st	Amount
1915	$ 211,551.97
1916	62,722.49
1917	105,458.12
1918	754,792.01
19 9	2,395,643.02
1920	3,322,952.78
1921	3,568,106.74
1922	2,392,598.57
1923	1,249,677.90
1924	775,170.38
Total	$14,838,673.98

[158] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, pp. 346 and 354. For details of administration, see *ibid.,* p. 344.

The Finance Act provided Canada with rather a rudimentary but nevertheless simple and convenient and inexpensive central bank mechanism. It provided a means for the banks to enlarge their holdings of "legals" which could be used to meet clearing house balances or to increase their own note issues, an arrangement which was of the utmost importance during the war in enabling the banks to expand to meet fiscal requirements. It has made a close relationship between the Government issues, the Dominion notes, on whose issue there are practically no legal limits, and the bank note circulation. Even since the war it has proved useful, as Sir John Aird indicated, and will probably continue as an integral part of Canada's financial and banking machinery: [159]

Introduced as a war measure because of the disorganization of the foreign exchanges during the Great War, and of the obstacles thus raised to the usual methods of financing the requirements of the Canadian banks, . . . the Act has proved a measure of no small value in meeting the fluctuating seasonal requirements of Canada's trade. As the figures of the balance sheet show, we avail ourselves of its facilities, and it is our intention to continue to do so from time to time for the purpose of providing for the peak load of marketing the natural products of Canada . . .

It was this Act, this arrangement, that permitted the war inflation, that allowed for the issuance of greater amounts of currency and, upon this as a base, for the creation of an inflated superstructure of credit. The mechanism was used, as indeed were the Federal Reserve Banks in the United States, as a means of securing men and supplies on the basis of "manufactured" purchasing power. As a second result, it has had the effect of taking in part the responsibility for the maintenance of the cash reserves of the nation from the chartered banks. Enacted by virtue of the war emergency, the Finance Act has been continued as a sort of rediscounting or central bank machinery. At the present time, it is probably all that Canada needs by way of a central bank. If used by the banks, not continuously, but simply as a means

[159] Address of Sir John Aird, General Manager, in *Annual Report of The Canadian Bank of Commerce,* Nov. 30, 1923, p. 30.

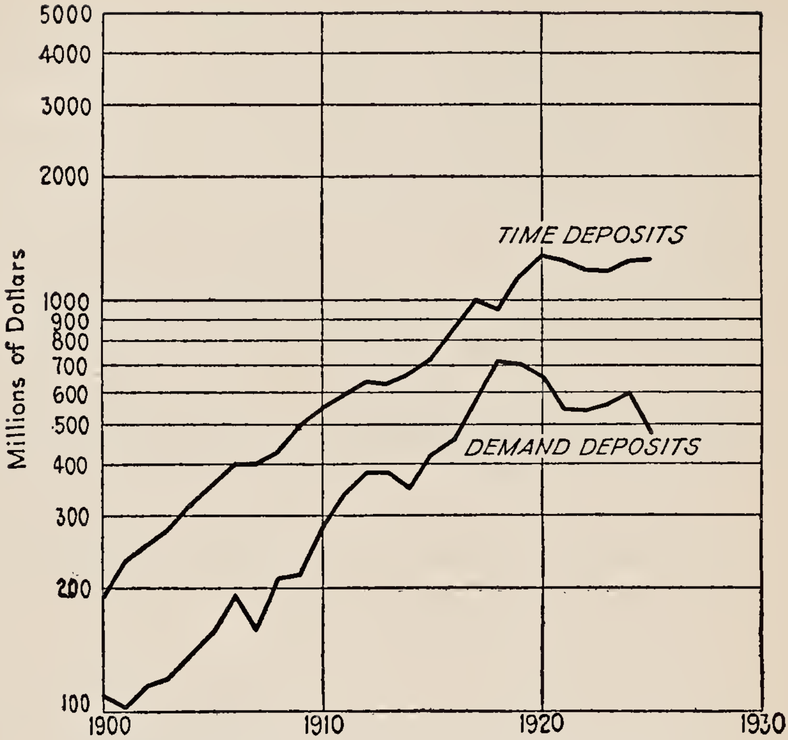
of financing seasonal requirements, its introduction will probably be beneficial. The administration of the Act, however, on the part of the Treasury Board could be improved. First, the rate for advances should be held above the market and especially above the call loan rate in New York City. Otherwise, the chartered banks in case of need would borrow from the Government rather than to call in their call loans. Then in the second place, the returns of the chartered banks should give not only the amount of the advances outstanding on the last day of the month, as at present, but also the maximum amount of advances during the course of the month. The present arrangement induces a bank, which might dislike to be recorded as borrowing from the Government, to pay off its loans shortly before the end of the month and so " window-dress " its statement. And finally, the Treasury Board should inquire carefully into the reasons for the loans and refuse those which would permit a bank to continue to participate in and give support to speculative markets.

Deposits — Demand and Time. By Section 95 of the Bank Act, the chartered banks are given wide latitude in the matter of accepting deposits, for they may receive these from any person whomsoever, whatever his age, status or condition in life, and whether such person is qualified by law to enter into ordinary contracts or not.[160] In the returns of the chartered banks, deposits are divided into eight classes which gives us rather detailed information regarding this phase of Canadian banking. Commercial institutions though they be, it is interesting to note that their savings deposits, or more exactly those payable after notice or on a fixed day, are at present 2½ times as large as deposits payable on demand. The growth of time and demand deposits in Canada since 1900 is represented in the graph shown at the top of the next page.[161] Up to 1918 demand deposits were increasing at a slightly faster rate. Subsequently demand deposits, in consequence of the price deflation and the business depression, have fallen by about 200 million dollars, while time deposits have actually increased.

The time or savings accounts are, according to the rules estab-

[160] In the Province of Quebec a married woman is under considerable handicap as a bank depositor.

[161] Source of data: *Returns of the Chartered Banks.* Ratio Scale.



COMPARISON OF RATE OF GROWTH OF THE TIME AND DEMAND DEPOSITS OF THE CHARTERED BANKS

lished by each bank, usually subject to a withdrawal notice of fifteen days. Ordinarily this right is not exercised by the bank, and in practice they are similar to demand deposits in that they are checked against rather freely. Interest on these slow checking or savings accounts is allowed at the rate of 3% per annum on the minimum monthly balance at all of the chartered banks excepting at the Weyburn Security Bank, where the rate is 4%.[162]

The law does not require a segregation of savings accounts or provide for their investment in any prescribed fashion. They are used customarily to build up the loanable and investment pool of the banks and are utilized in the same fashion as the strictly de-

[162] In his testimony in 1913, Mr. D. R. Wilkie indicated that there was an "understanding" among the banks regarding the 3% rate but that there was nothing to prevent a bank from paying more and that no penalties could be imposed for any deviations. *Minutes of Proceedings, Evidence, etc.*, 1913, p. 654. Some of the banks deviate from the 3% rate in the case of employees, municipal corporations and pension funds. *Interviews on the Banking and Currency Systems of Canada*, p. 88.

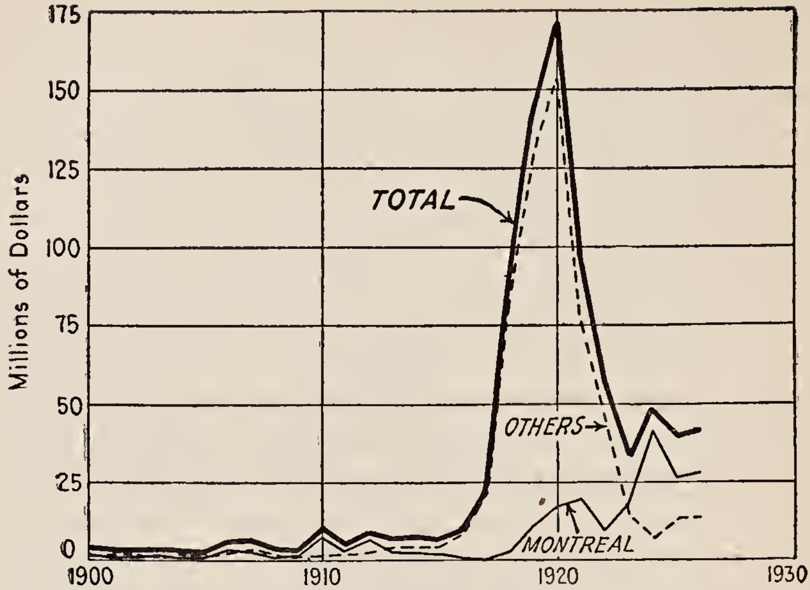
mand deposits or active checking accounts. Nor is the savings depositor given a prior lien on the assets of a failed bank. In matter of priority, the notes constitute the first lien; the claims of the Dominion Government, the second; of the Provincial Governments, the third; the depositors' claims, the fourth. In practice, if there is fear of failure, the demand depositor, if he is sufficiently alert, will protect himself against loss by withdrawing his funds, a course not always open to the time depositor, in whose case a withdrawal notice may be required. Since the savings depositor's lien ranks so far down the list, in law and practice, it seems but reasonable that his deposits should be invested in securities or in forms generally approved by the Minister of Finance which should be segregated and be used in event of failure, to satisfy his demands.[163] The same idea could well be adopted in the National Banking System of the United States where time deposits have grown so rapidly in the past decade that proper safeguards might be thrown around the present tendency toward departmentalization.

Deposits, Government. The Dominion Government places some of its funds with each of the chartered banks, but the bulk (excepting during the war) with the Bank of Montreal, which has been generally regarded as the Government's bank and the principal fiscal agent of the Dominion.[164] The total amount of the deposits of the Dominion and the amount with the Bank of Montreal and the other chartered banks are shown in the chart on page 404. During the war period the Dominion deposits rose sharply and attained in 1920 a maximum of 170 millions of

[163] See remarks of H. C. McLeod, *Minutes of Proceedings, Evidence, etc.*, 1913, p. 175.

Relative to this proposal, Mr. Henry T. Ross wrote as follows: "If these deposits were segregated and 'invested in securities or in forms approved by the Minister,' the banks would have relatively little funds for commercial banking. To give effect to the suggestion would . . . destroy the present Canadian banking structure and render the continued existence of the Canadian banks and the service they give to the Canadian public impossible. In the past twenty-six years the losses to depositors in Canadian banks have been less than one-half of one per cent of the present deposits, so that it would hardly seem worth while scrapping the structure and all that that entails to insure against a possible loss of this relatively insignificant amount."

[164] See *Interviews on the Banking and Currency Systems of Canada*, p. 154.



Dominion Deposits with the Bank of Montreal and with the Other Chartered Banks

dollars, which were in reality proceeds of war loans pending disbursement. Since then they have fallen rather sharply to about

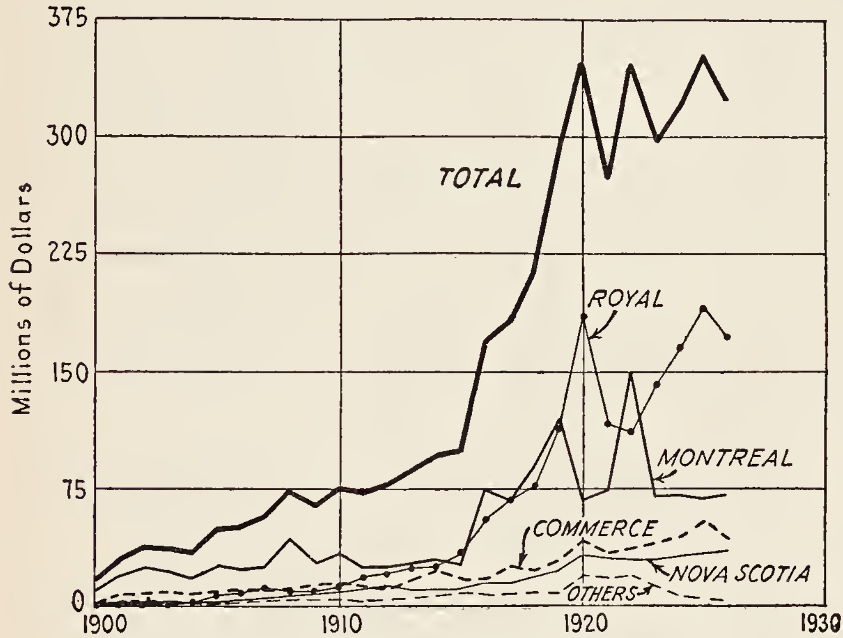
Provincial Government Deposits with the Chartered Banks

one fourth of this amount and are relatively a small item in the total deposits of the chartered banks.[165] The balances due Pro-

[165] Source of data: *Returns of the Chartered Banks.*

vincial governments have fluctuated since 1910 between 20 and 35 millions of dollars and, like the Dominion balances at present, are but a small factor in the total deposits of the chartered banks.

Deposits, Foreign. In 1900 the chartered banks had but 16 millions of dollars of deposits at their foreign offices, of which 10 millions of dollars were held by the Bank of Montreal. Today



Foreign Deposits of the Chartered Banks

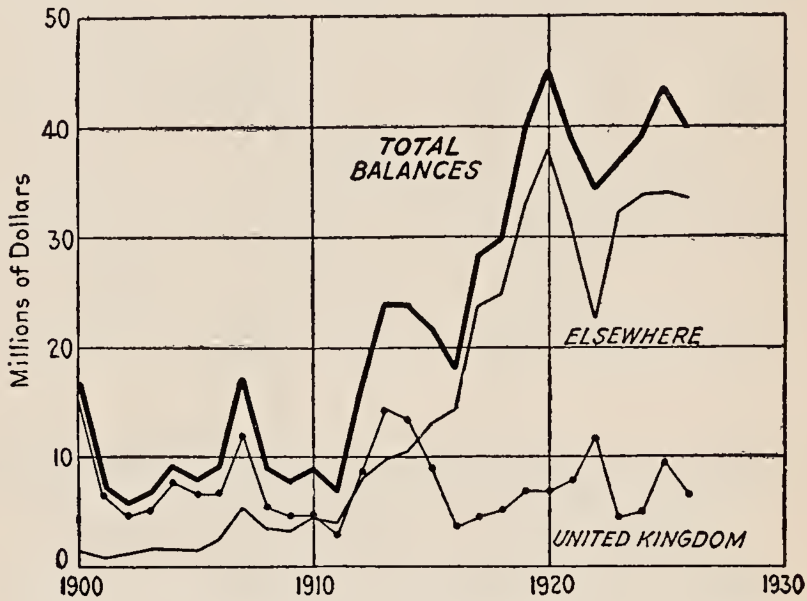
their foreign deposits have increased by twenty-fold, to 324 millions of dollars, of which 172 millions are held by the Royal Bank, 71 millions by the Bank of Montreal, 42 millions by the Bank of Commerce, and 35 millions by the Bank of Nova Scotia. The increase in the foreign deposits of the Royal Bank in particular has been most phenomenal.[166] The growth of these deposits has resulted in part from the expansion of the foreign branches of the chartered banks, and in part from Canada's foreign borrowings.

Foreign deposits present a special problem in that they are subject to wider and more violent fluctuations than domestic. For example, the deposits of the Royal Bank slumped from 180 million dollars in July, 1920, to 111 millions of dollars two years

[166] Source of data: *Returns of the Chartered Banks.*

later. In one year the foreign deposits of the Bank of Montreal dropped from 150 to 70 millions of dollars. Because of these wide oscillations, the best banking policy would be to keep the funds in a most liquid form.[167]

The foreign deposits shown in the previous chart do not include the balances due foreign banks which appear in the accompanying graph. One quite significant trend in these is that while



Deposit Liability of Chartered Banks to Foreign Banks

before the war the balances due to agencies or banks in the United Kingdom were larger than balances due elsewhere, today the reverse is decidedly the case.[168]

The Loans of the Chartered Banks. The necessity for controlling by legislation the type of loans which may be made by national and state banks and the amount of credit which may be

[167] By reason of foreign exchange fluctuations, the reserves and contra-assets for each country's deposits must be native to that country to avoid possibilities of exchange losses. Of course it is true that the years 1920–21 were the years of great fluctuation in banking everywhere and can hardly be selected as typical years. Ordinarily, fluctuations of the foreign deposits of Canadian banks do not vary greatly from the fluctuations in domestic deposits. In the case of the Bank of Montreal, as depositary of the Government it frequently receives in New York the proceeds of a Government loan or else accumulates in New York funds to retire a Government loan.

[168] Source of data: *Returns of the Chartered Banks.*

extended to any one interest is seldom questioned in the United States. In a unit type of banking organization, where the typical institution is small, such mechanistic rules are justifiably embodied in legislation to guide the inexperienced in banking and to bring about a distribution of risk in loans. The chartered banks of Canada as compared with banks in the United States operate under few restrictions as to their loans and investments. Their very size and nation-wide character tend to bring about a desirable distribution of risk and, then again, there have developed banking customs or traditions which are more effective than legal control. Not that we mean to imply that bank management in Canada is ideally perfect and free from flaws. On the contrary, in some instances bank management has been tragically incompetent and in cases actually dishonest. On the whole, however, Canadian bank management has been competent and the abuses which have crept in by reason of the lack of strict legal control over the development of bank portfolios have been relatively few.[169]

Loan Provisions of the Bank Act. A summary of such provisions as appear in the Act follows:

POSITIVE PROVISIONS

A Canadian chartered bank may:

General Powers	deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stock, bonds, debentures and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, provincial, British, foreign, and other public securities. (Section 75)
	engage in and carry on such business generally as appertains to the business of banking. (Section 75)

[169] Some Canadian authorities favor limiting the amount of loans to any one interest on the ground that some failures in the past have been due to excessively large loans to a single interest.

GOLD COIN AND BULLION	engage in and carry on business as a dealer in gold and silver coin and bullion. (Section 75)
TIMBER LOANS	lend money upon the security of standing timber or the rights or licenses held by persons to cut or remove such timber; provided that if the provincial law permits, the instrument evidencing such security is registered against the land upon which such timber stands or in the offices in which are recorded such rights or licenses. (Section 83)
LOANS TO RECEIVERS	lend money to a receiver, to a receiver and manager, to a liquidator appointed under any *Winding-up Act,* or to a custodian, interim receiver, or trustee under *The Bankruptcy Act,* provided such receiver, receiver and manager, liquidator, custodian, interim receiver, or trustee, has been duly authorized or empowered to borrow, and, in respect of any money so lent, the bank may take security, with or without personal liability, from such receiver, receiver and manager, liquidator, custodian, interim receiver or trustee to such an amount, and upon such property and assets, as may be directed or authorized by any court of competent jurisdiction. (Section 84)
LOANS TO WHOLESALE DEALERS	lend money to any wholesale purchaser or shipper of or dealer in products of agriculture, the forest, quarry and mine, or the sea, lakes and rivers, or to any wholesale purchaser or shipper of or dealer in live stock or dead stock or the products thereof, upon the security of such products, or of such live stock or dead stock or the products thereof. (Section 88)

Loans on Grain	lend money to a farmer upon the security of his threshed grain grown upon the farm. (Section 88)
Loans to Manufacturers	lend money to any person engaged in business as a wholesale manufacturer of any goods, wares and merchandise, upon the security of the goods, wares and merchandise manufactured by him, or procured for such manufacture. (Section 88)
Seed Grain	lend money to the owner, tenant or occupier of land for the purchase of seed grain upon the security of any crop to be grown from such seed grain. (Section 88)
Loans for Live Stock Raising	lend money to a farmer and to any person engaged in stock raising upon the security of his live stock; provided however that such security shall not include and shall be deemed not to include any live stock which at the date of the coming into force of this Act is by any statutory enactment exempt from seizure under writs of execution. The provisions of subsection 4 of this section making live stock substituted for live stock removed subject to the security, shall apply to the live stock substituted by the farmer or other person engaged in stock raising. "Live Stock" for the purposes of this section means horses and mares, bulls, cows, oxen, bullocks, steers, heifers and calves, sheep and swine and the offspring of any of such animals. (Section 88)

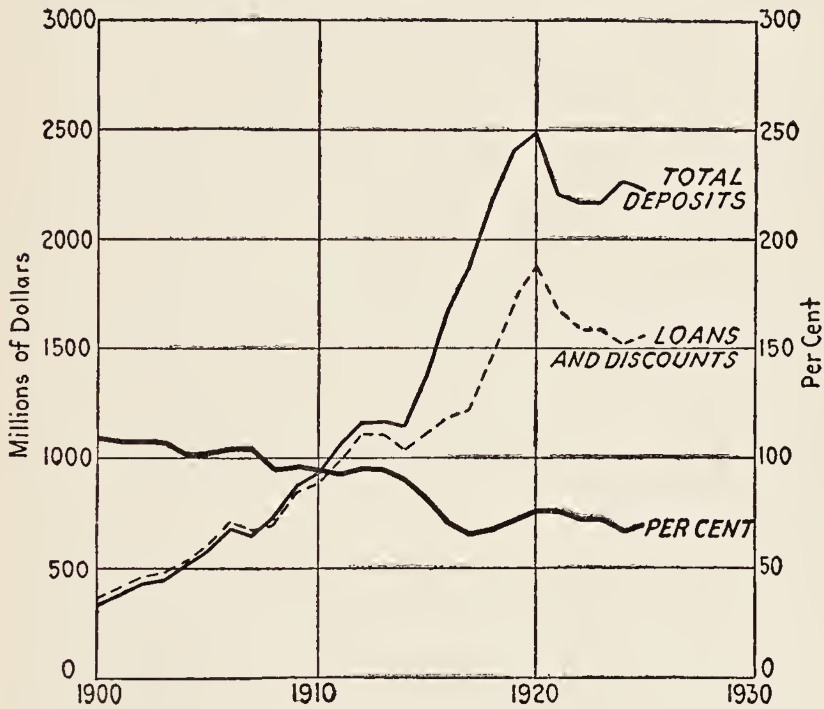
NEGATIVE PROVISIONS

A chartered bank may not, except as authorized by the Act, directly or indirectly:

GOODS AND MERCHANDISE	deal in the buying or selling, or bartering of goods, wares and merchandise, or engage or be engaged in any trade or business whatsoever. (Section 75)
LOANS ON OWN STOCK	purchase, or deal in, or lend money, or make advances upon the security or pledge of any share of its own capital stock, or of the capital stock of any bank. (Section 75)
LOANS ON MORTGAGE	lend money or make advances upon the security, mortgage or hypothecation of any lands, tenements or immovable property, or of any ships or other vessels, or upon the security of any goods, wares and merchandise. (Section 75)
LOANS TO MANAGERS AND EMPLOYEES	lend to or on the security of the general manager, assistant general manager, branch manager, or any officer, clerk or servant of the bank without the approval of the directors any amount or amounts exceeding in the aggregate one thousand dollars. (Section 75)
	lend to or on the security of the general manager, assistant general manager, branch manager, or any officer, clerk or servant of the bank any amount or amounts exceeding in the aggregate ten thousand dollars. (Section 75)
LOANS TO DIRECTORS	lend money or make advances in excess of ten per cent of its paid-up capital to a director of the bank or to any company or corporation in which the president, general manager or a director of the bank is a partner or shareholder, as the case may be, without the approval of two-thirds of the directors present at a regular meeting, or meeting specially called for the purpose, of the board.[170]

[170] The Canadian law does not limit the amount which may be loaned to any one interest. Mr. H. C. McLeod in 1913 suggested as a limit 25% of capital. *Minutes of Proceedings, Evidence, etc.*, 1913, p. 111.

Loan Deposit Ratio. The monthly returns list under ten categories the loans of the chartered banks. The most important and the one which includes the bulk of the commercial loans in Canada is that headed, "Other current loans and discounts in Canada." On July 31, 1926, this amounted to nearly 942 millions of dollars which was equal to less than half of the demand and time deposits of the banks. Even total loans were considerably less. Twenty-five years ago the reverse was true, total loans were then larger than deposits. The difference was contributed from the capital funds of the banks. But in the meantime, as indicated in the following chart, deposits have grown and, especially since 1913, much more rapidly than loans.[171]



The Per Cent Relationship Between the Total Deposits and the Total Loans and Discounts of the Chartered Banks

Though for the entire banking system, deposits are greater than loans, in many sections the opposite is true. It is one of the marked advantages of a nation-wide system of branches that a shifting of funds may take place from those parts where there is

[171] Source of data: *Returns of the Chartered Banks.*

an excess of deposits, where deposits are not absorbed entirely by local credit needs, to rapidly developing sections, standing in great need of credit and unable to be self-financing. This is one of the admirable qualities of the Canadian banking system and has meant much as a factor in the development of the grain Provinces. To some extent funds are shifted about in the United States and yet in a relatively crude cumbersome fashion when compared with the ease in the mobility of funds in Canada. Commercial paper houses [172] and note brokers help to bring about a sectional mobility of funds in the United States and have been an important factor in making the unit banking system work. Then, again, interior banks borrow from their correspondents in the East or in large centers or from the Federal Reserve Banks to meet seasonal and on occasion cyclic needs. But the borrowing unit banks can not be financed continuously to meet the constantly growing needs of a developing community, as may the branches of the banks in Western Canada whose loans may for a long period exceed deposits. Branch banking then serves best new sections and would be a real benefit, if properly controlled and supervised, to many parts of the United States. To an old, relatively wealthy, and long-established community as is the State of Massachusetts, it would be of little value. The local loan demand is small and not sufficient to absorb the funds of the banks which place their excess resources in bonds [173] or commercial paper, thus making for a diversification of risk. With a nation-wide system of branches these excess funds could be shifted West.

The financing of less developed regions in Canada through a shifting about of banking resources was touched on by Mr. C. E. Neill in his testimony before the Committee on Banking and Commerce in 1924 in which he indicated that the excess resources of British Columbia and the Maritime Provinces are utilized by the Prairie Provinces: [174]

[172] Only occasionally do the note brokers operate in Canada, in the main a business man relies for his funds entirely on one bank. *Minutes of Proceedings, Evidence, etc.*, 1913, pp. 171 and 311.

[173] In the past in corporate and municipal securities of which there has been an abundance coincident with America's rapid development. In the future these excess funds will be invested probably to a larger extent in foreign securities.

[174] p. 265.

Q. Would you say whether there is any comparison as to depositors in any given district — say my own province of British Columbia — as to the difference between the loans and deposits?

A. I should say that in British Columbia the deposits are higher than the loans.

* * *

Q. I cited British Columbia not because I lived there but merely as a unit. How about the other three western provinces? How will the loans and deposits compare? — A. I think in the Middle West the people have a larger proportion of loans than any other district.

Q. As compared with their deposits? — Yes, I think they have received much the most liberal treatment.

By Mr. Hanson:

Q. How about the Maritime Provinces? — A. Of course, the Maritime Provinces are really more of a depositing centre than a loan center.

In his testimony in 1913 Sir Edmund Walker revealed that at the 122 western branches of the Canadian Bank of Commerce, in the Prairie Provinces, farmers' deposits amounted to $2,869,926 and loans to farmers amounted to $13,035,784, or nearly five times as much.[175] At the same hearings Mr. H. O. Powell, as the result of banking experience in both the Dakotas and Canada, declared that farmer borrowers got practically twice as much credit from the banks in the Dominion.[176] By way of summary, the development of the Canadian West has been made possible through the bank deposits of other sections. Funds have been shifted to points of greatest need and incidentally the resources of the banks have been greatly diversified. The risk has been distributed.[177]

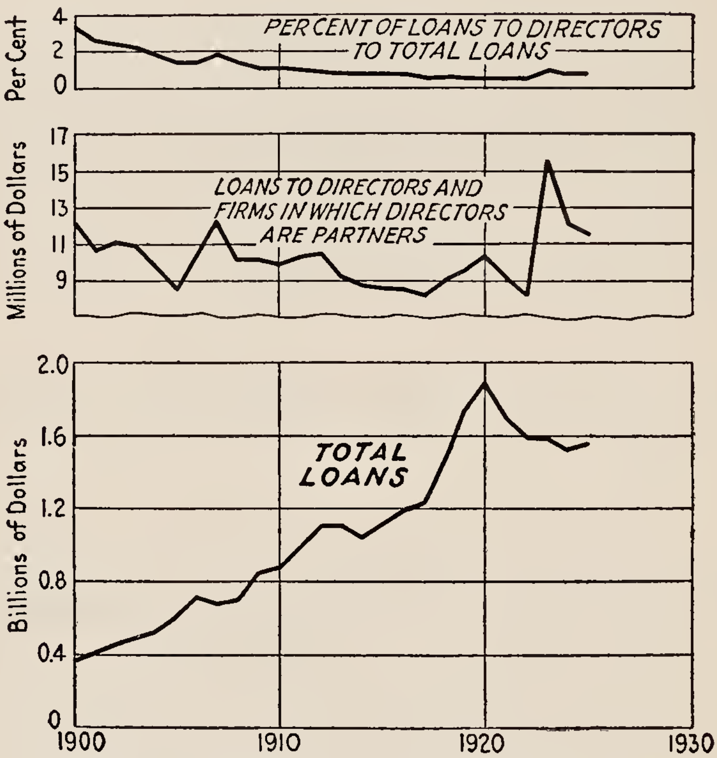
Loans to Directors. For some years the returns of the chartered banks have given data regarding the amount of loans made to directors and to firms in which they were partners. Such data are important since banks are prone to succumb to the temptation

175 *Minutes of Proceedings, Evidence, etc.,* 1913, p. 484. See also p. 577.

176 *Ibid.,* p. 428.

177 See *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 447.

of lending an undue amount in this fashion. The amount of such loans and the per cent they bear to the total of call and other current loans and discounts in Canada are given in the following table. The per cent of such loans is not as large today as in 1900.[178]



THE AMOUNT OF LOANS EXTENDED BY THE CHARTERED BANKS TO THEIR DIRECTORS HAS DECLINED SINCE 1900

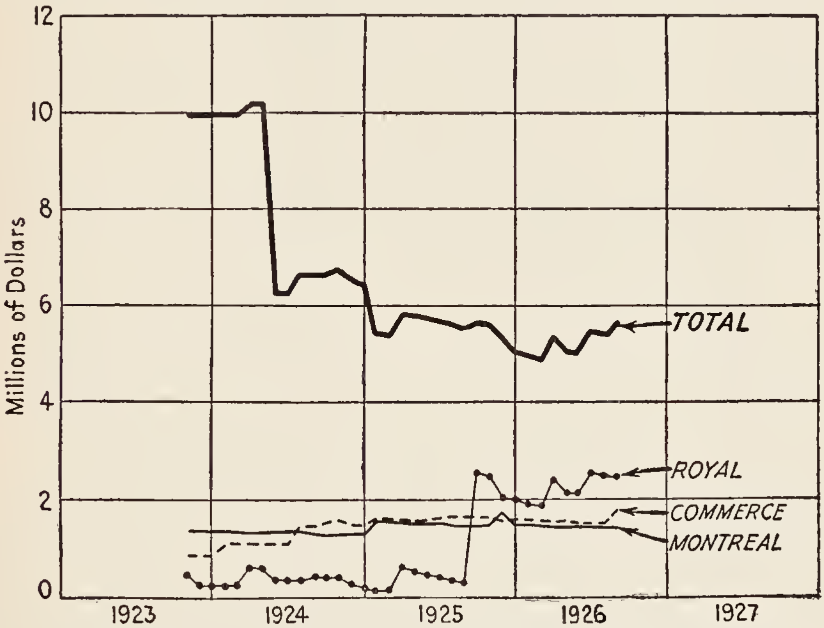
Sir Edmund Walker made the following rather pertinent observations relative to directors' loans: [179]

The matter of loans to directors has always been a difficult question, for which no more satisfactory solution has been found than to permit comparative freedom, except that in the monthly return the aggregate of loans to directors must be shown. . . . Two points in this connection are clear. If a bank has a board consisting entirely of directors who do not borrow, it runs great risk

[178] Source of data: *Returns of the Chartered Banks.*
[179] *Canadian Banking,* by Sir Edmund Walker, pp. 15–16.

of not being in touch with the active business community; because until Canada is a much richer country, the business men still in the prime of life are likely to be borrowers. On the other hand, as long as directors are allowed to borrow from the bank at whose board they have a seat, there will be losses, and, occasionally, losses not justifiable.

Shares of and Loans to Controlled Companies. Since October, 1923, the ownership of the shares of, and the loans to, controlled companies have been included in the returns. The totals for the three largest banks and for all are shown in the following chart.[180] At the present time, the only banks which have such loans or shares are Montreal, Commerce, and Royal.[181]



The Ownership of Shares of and Loans to Controlled Companies

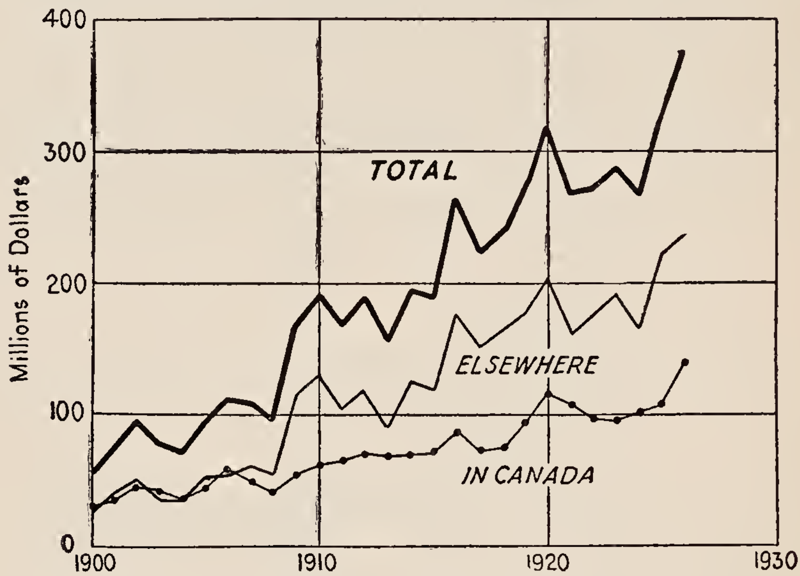
Call and Short Loans. While the chartered banks make what are termed call loans in Canada, there is in fact no true call market in the Dominion. As the accompanying chart indicates, there are now but 140 millions of dollars on call in Canada which makes for a restricted, inelastic and non-resilient market.

180 Source of data: *Returns of the Chartered Banks.*

181 Regarding the danger of affiliated institutions see Mr. H. C. McLeod's testimony in 1913, p. 120.

Should any single bank call its loans, the market would be thrown into a panic and for that reason some of the banks do not show such loans in the call column. From 1920, the peak of the boom period, to 1923, the total of these loans declined by only twenty million dollars.[182]

The totals of the call loans elsewhere are now about 100 million dollars greater than call loans in Canada. These are for the



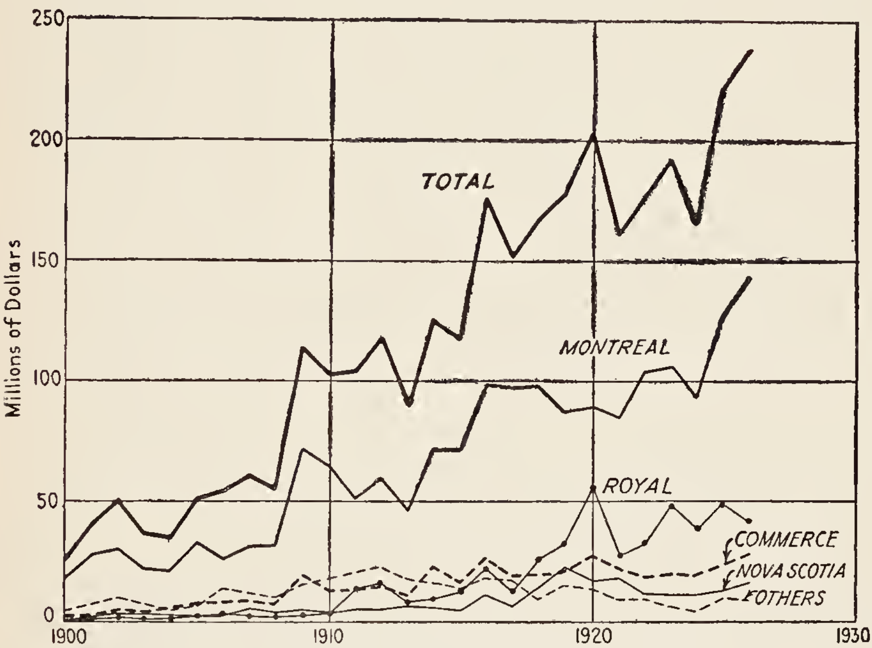
THE CALL AND SHORT LOANS OF THE CHARTERED BANKS EXTENDED IN CANADA AND ELSEWHERE

most part placed on the New York market and can readily be called owing to the breadth of the market and its ability to rely indirectly on the credit elasticity of the Reserve System. All but a small percentage of these loans are placed by the " big four " and at that, the bulk by the Bank of Montreal, as reserve against the Dominion deposits. The Canadian banks have been criticized for placing their funds on call in New York and so, claim the critics, of depriving legitimate industry, agriculture, and commerce of needed funds. But as the Canadian banks point out the New York market, in the absence of a call loan or discount market in Canada, is used as a depository of surplus funds, of a portion

[182] Source of data: *Returns of the Chartered Banks.* On several occasions, of course, Canadian banks could not call their loans in the New York call loan market.

of the reserves of the chartered banks which are withdrawn without hesitation in case of need.[183] Sir Edmund Walker traced the origin and historical development of this practice in testifying in 1923.[184]

Q. I have just a few questions I would like to ask. The statement I am referring to is dated February, which is characteristic I think of most of the bank statements. I wish to ask you, Sir



The Call and Short Loans Placed Elsewhere than in Canada by Chartered Banks

Edmund, to give a clear, frank expression, as you have so kindly done, in most instances, to the necessity for loaning on call loan, elsewhere than in Canada the sum of $181,000,000, and other loans, $165,000,000 or a total of $347,000,000; the necessity for that and also at the same time would you not consider that

183 Disregarding the call loans abroad which might be considered as part of their reserves, the banks frequently have larger foreign deposits than loans. See *Minutes of Proceedings, Evidence, etc.*, 1913, pp. 160, 161 and 536. One reason for the increasing amount of foreign call loans of the Canadian banks has been the favorable balance of the trade of the Dominion.

184 *Proceedings of the Select Standing Committee on Banking and Commerce*, 1923, p. 522.

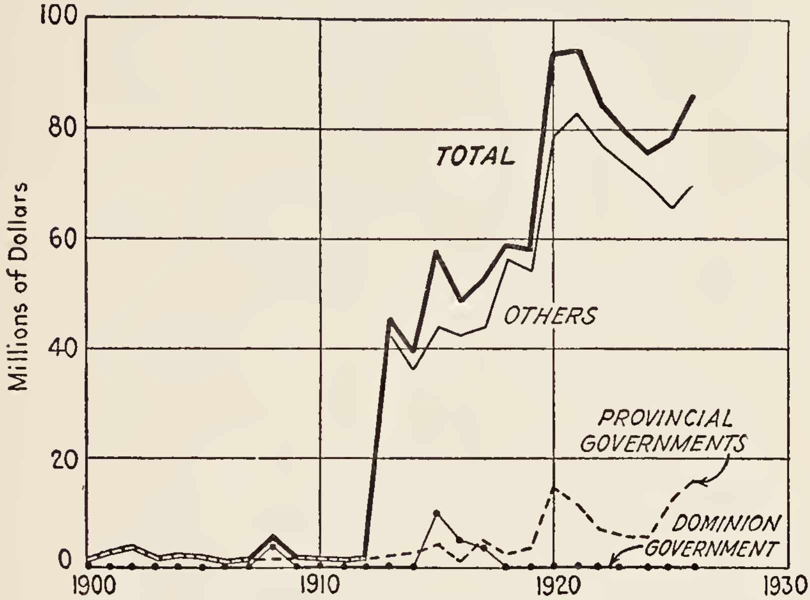
the withdrawal of part of that call loan for instance and its use in Canada at this time might have a beneficial effect on Canadian business? — A. I think you did not quote the deposits in foreign countries.

Q. I did not. The deposits I might say are $325,000,000. The loans are $347,000,000. — A. So that there is $20,000,000 we have to deal with. A very small reserve surely for the Canadian business.

Q. The reason I asked that question is this. Frankly it has been a criticism in my mind, and I know it is in the minds of a great many others that perhaps the Canadian bankers might bring, for the present rather stringent period, some of this money back to Canada, and I think it would be well for the bankers to make a frank statement on the subject. — A. In the first place it is not a stringent period in that sense. The banks of Canada have plenty of money to lend; it is the quality of the security and the condition of business, and the volume of it that is the difficulty. Money is not stringent. So far as the question of carrying our reserves in New York is concerned, the practice is older than Confederation, it goes back to the sixties, when there used to be bitter complaints in Ontario that the Bank of Montreal would lend its money in New York but would not lend to the Ontario farmers and merchants. It has come up regularly and been answered just as regularly over and over again. Canada has been saved almost every time when there has been a serious panic in the United States by our ability to withdraw from New York our balances there to serve our people at home. Saved in '93, saved in '97, saved many, many times. The amount in New York must be added to the cash reserves in Canada, and then you must consider whether those reserves as a whole are too much for the volume of business. But when we have times like the present, it is not that the banks have money to lend, it is that the people have not the transactions to offer to the bank that are suitable for good loans.

Loans to Governmental Authorities. The loans to governmental authorities have on the whole constituted a small proportion of the total loans of the chartered banks, as the next chart shows. It is interesting that loans to cities, towns, municipalities,

and school districts have constituted the bulk of the loans and that loans to the Dominion have been few and far between.[185]



Loans by the Chartered Banks to Governmental Authorities

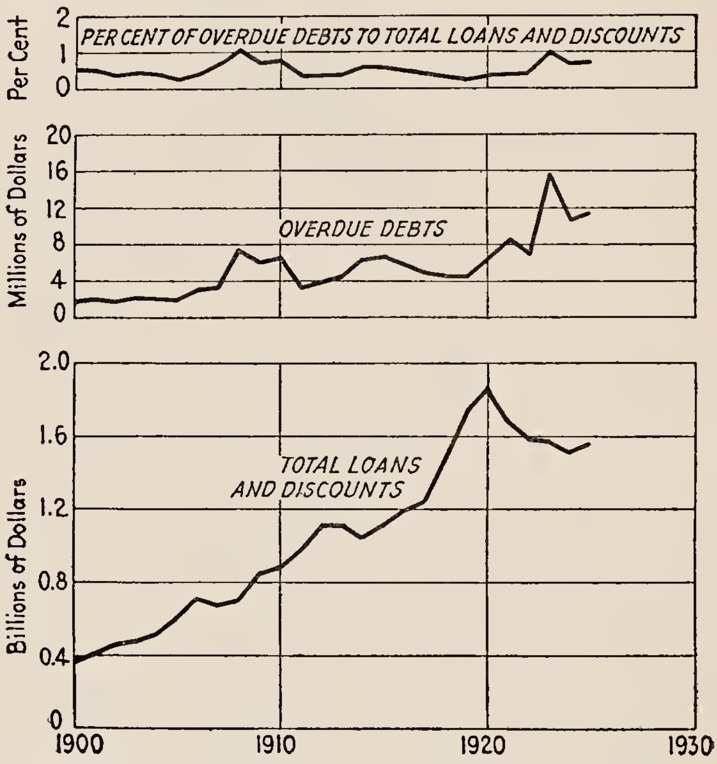
Overdue Debts. The returns of the chartered banks have for many years carried an item known as "overdue debts" the meaning of which until the revision of 1923 was left to the judgment of each banker. At that time the phrase "non-current loans, estimated loss provided for" was substituted (section 113) and this was carefully and minutely defined in the Bank Act. From the chart on p. 420 it is interesting to observe the relation of overdue debts to fluctuations in business conditions. This item was largest in the depression years of 1908 and 1923 and smallest in the boom times of 1906 and 1919.[186]

Section 88. One of the most interesting features in the Canadian Bank Act is the special protection accorded banks in the making of certain types of loans by the quite famous section 88, of the Bank Act, as supplemented and enlarged by Section 89. A bank in making loans to wholesalers, purchasers or shippers

[185] Source of data: *Returns of the Chartered Banks.* Data as of the last banking day in July of each year.

[186] Source of data: *Returns of the Chartered Banks.* Data as of the last banking day in December of each year.

of or dealers in the products of "agriculture, the forest, quarry and mine, or the sea, lakes and rivers, or to any wholesale purchaser or shipper of or dealer in live stock or dead stock or the products thereof," or to a farmer upon the security of his threshed grain, or to any person engaged in business as a wholesale manufacturer of any goods, wares and merchandise may acquire special protection [187] or security by virtue of which the same legal rights



The Per Cent Amount of Overdue Debts Shows a High Increase in Years of Depression

are acquired as would have been obtained by a warehouse receipt. In other words, a bank acquires by reason of these provisions a first and preferential lien [188] upon products handled by wholesale purchasers, shippers, dealers or manufacturers through the various processes of trade and manufacture. The banker becomes for all practical purposes sort of a silent partner in busi-

[187] See Schedule C of Act.
[188] Secondary, however, to wages and salaries owing for a period not exceeding three months.

ness and agriculture.[189] The borrower is in no way embarrassed for he has the same right to buy and sell as he would were he under no obligation to the bank. If he should adopt a policy of which the lending bank disapproved, the banker might take immediate possession of his stock of goods. A bank's lien upon property accepted as security for a loan, under section 88, is superior to that of any unpaid vender unless the vender's claim was known to the bank when it accepted the goods as security. Further, in case goods, upon the security of which money has been loaned, are removed and other products substituted, the bank shall acquire the same rights in respect to these as it had in respect to the original commodities. These provisions have contributed greatly to the strength of the assets of the Canadian banks, for banks which advance funds in this fashion have a prior claim upon the goods loaned upon as they are fabricated or as they come and go in the course of trade.

The reason for section 88, a provision peculiar, with the exception of Newfoundland, to the Canadian Bank Act, was explained at some length by Sir Edmund Walker in the 1923 hearings: [190]

> Referring to 88, in the early days in this country where the lumberman and the mover of any kind of our early products needed help from the bank, he had capital very small indeed in proportion to his requirements. He could himself be a bailee. He could issue a warehouse receipt himself. There were several different things on which you could take a lien for a bank, but it was illogical, and did not go far enough. We framed section 88 in order that the manufacturer in Canada or the man who was taking out a raw product of any kind or was moving wheat to the market, particularly wheat to a flour mill, could borrow from the bank without endorsers or anything of that kind, by pledging the material to the bank. It was based upon the idea that in the overwhelming bulk of the cases cash is paid for the raw material, and cash is paid for the labour, and no injustice could be done to anyone in cases of that sort.

189 See House of Commons Debates, 1913, pp. 2287, 2494–2498, and *Minutes of Proceedings, Evidence, etc.*, 1913, pp. 407, 421 and 571.

190 *Proceedings of the Select Standing Committee on Banking and Commerce*, 1923, pp. 523–524. See also *Minutes, Proceedings, Evidence, etc.*, 1913, p. 280.

Mr. Beaudry Leman, General-Manager of the Banque d'Hochelaga, warmly defended this section in the same hearings as having rendered considerable and valuable service to the country: [191]

As far as we are concerned the operations of section 88 are concerned mostly with lumbering operations, with the lumber, paper, pulp industries, where the large advances which are necessary almost every year for the lumbering operations are covered by a security under section 88: aside from that we have had some experience in the shoe industry, making advances on the raw materials used in the manufacture of shoes. Personally, I believe the great majority of all manufacturers and all the business community are honest men, and they have used section 88 as it was intended by Parliament; when they have obtained from the banks money on the security of those raw materials, they have paid both their labour to secure the raw materials or other manufacturers who were producers of those raw materials. . . . We must realize that the accumulated wealth in this country is not so large as it is in other communities, and that a great many of our concerns, particularly of the smaller sort, start out in business, in a very legitimate business, with a small or relatively small margin of working capital and this has enabled the banks to go and help them along the line of developing production, particularly our great natural resources.

And to quote one more witness, Sir Frederick Williams-Taylor declared flatly that Canada's development was due to a considerable extent to this provision: [192]

Section 88 of the Bank Act, which is the section you refer to, was enacted a great many years ago; it was conceived not in the interests of the banks, but in the interests of a community where the amount of accumulated wealth was naturally small, this being a new country, and it was a very ingenious and excellent conception, and the benefits that have accrued to this country in consequence of it are in my opinion and the opinion of all the

[191] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 636.
[192] *Ibid.,* pp. 328–329.

bankers in Canada, and I think the great bulk of the community who have to do with section 88, quite incalculable. It would be quite impossible for Canada to have developed in the way that Canada has developed without section 88. May I give you an illustration, Mr. Woodsworth, because this is an important matter and I would like to say a word or two about it.

An individual or group of individuals have a capital of, say, a million dollars, and they desire to go into a manufacturing business of some nature or other. It is necessary for the conduct of that business that they should have premises. They put $750,000 of their capital into their plant, leaving them with $250,000 of working capital. Now the amount of money that could be borrowed from a bank, without section 88, would be in strict keeping with their working capital, a bank might loan a similar amount, say $250,000 more; so that with their own $250,000 and the $250,000 provided by the bank, the company would have $500,000 of working capital at its disposal with which to operate a plant that cost $750,000. Now under the wise provision of section 88, which gives a bank a first lien on this security, provided the money is advanced at the time — and that is a very important feature, a bank cannot take a security receipt except against a loan made concurrently. Now as I say under this wise section 88, a bank can take a first lien on the goods of the manufacturer, and it enables the bank to lend the manufacturer, not $250,000 but possibly three times that amount, and thus enables the manufacturer with a limited amount of working capital, to treble his turnover and earn dividends in keeping with the amount of money invested in his plant.

In the 1923 revision it was provided (section 88a) that borrowings under section 88 should be registered to give due warning to all other creditors of the bank's prior lien. It was pointed out by witnesses appearing before the Banking and Commerce Committee that the creditors of an insolvent individual or firm were not given sufficient protection in view of the preferential lien of a bank and that advantage was taken of this section by unscrupulous traders who would purchase goods on credit and then borrow on the security of these from banks under this section. One of the

witnesses who laid particular stress on the necessity of registration was Mr. H. T. Tulloch, representing various Chambers of Commerce in England. He cited several cases as illustrative of the hardships imposed on British firms by reason of this provision. One of the cases which he cited follows: [193]

This is a shipment of goods that was made in November, the order was placed in November, 1919, and the goods were shipped over various periods; the total amount of the goods was £2,807; no payments were ever received, nor any complaints, but the customer wrote in September, 1920, stating that the goods were imperfect, and he consequently refused to accept them, and they were left in his premises at the English firm's disposal, and would they please give forwarding instructions. Owing to some mischance that letter went astray and it was returned to the Canadian firm. The agent of the English firm got in touch with the Canadian firm and agreed to the return of these goods, stating that he would give an address in Montreal to which the goods could be delivered on their account. On calling the next day to give this address, our agent learned that after his departure the previous day the bank had foreclosed, and refused to part with the goods. Our agent immediately interviewed his lawyers, who advised him that as the goods were only transiently in possession of the holder they would undoubtedly be handed over as soon as the bank had ascertained which goods in the premises belonged to the estate, and which did not; and he need have no misgivings. After the inventory was taken the bank claimed that the goods, of which fifty pieces were in the customer's warehouse and twenty-five pieces still remained in bond, were part of the estate, and refused to release them. Eventually the matter went to court and judgment was given in January, 1921, against us; so that the goods were entirely lost to us, and in addition we had to pay the legal expense. The estate is bankrupt, and there is no dividend for any creditor excepting the bank. We believed we had a clear case. Under the Canadian law we lost it; and this experience naturally had an adverse influence on our later settlement with the Canadian customers.

[193] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 189–190.

The witness then explained that as Canadian firms were not strong enough to pay for imports in cash against documents and that as at least 60 days credit had to be given,[194] the registration of such loans should be required to protect British firms against unscrupulous traders. Much the same opinion was held by Mr. Fielding, the Minister of Finance, who explained to the Committee the need for the registration of the $200,000,000 of loans outstanding under this section: [195]

The purpose was to give a warning; any man who wants to make use of that can do so. It will be no mark of discredit to be registered under that act; the biggest concerns in Canada will do it. This is not only a Bradford matter; there are Canadians who have complained bitterly of this priority given to the banks. Many Canadian citizens have complained bitterly over the bank having that priority. Now, what we do is simply to say that anybody trading under that shall register, and the world shall know it. If, in the face of that, they want to lend money, they can go on and do it, but they get the warning.

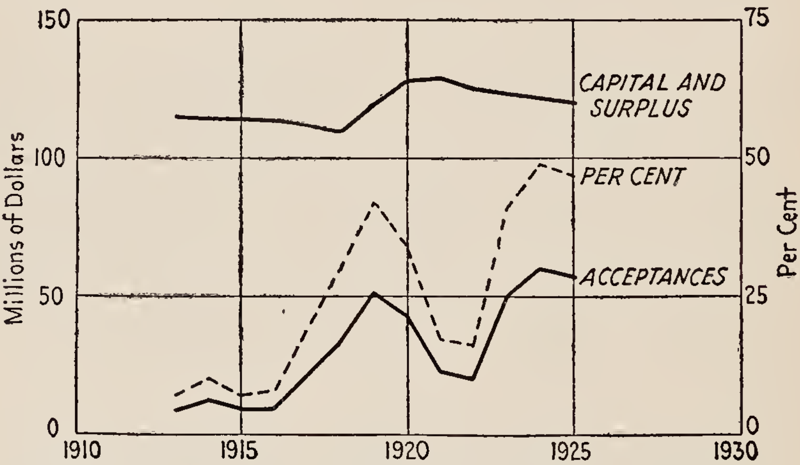
In the Act as adopted it was provided that any person intending to give a bank security under the provisions of section 88 must register notice of such intent (which shall be deemed notice in respect of all securities taken by the bank from such person during the period of three years after date of registration) in the office of the Assistant Receiver General in the province in which the place of business, or principal place of business or residence of the person is situated. Anyone, upon the payment of certain fees, is given the right of inspecting the registration books.

Acceptances. The larger chartered banks have for many years been actively engaged in the financing of foreign trade and have been active participants in the foreign exchange market. At one time they were among the heaviest traders in sterling in North America. In fact it is stated that prior to the Civil War, the agency of the Bank of Montreal in New York along with Brown

194 *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 194.

195 *Ibid.,* pp. 843 and 901. See also *Journal of Canadian Bankers' Association,* May and October, 1924, and *The Monetary Times* (Toronto), Vol. 66, p. 22.

Brothers was the dominating factor in the sterling market. To-day, as indicated elsewhere, the Canadian banks have established branches or agencies in many parts of the world, their international connections are most extensive and their foreign operations are of considerable prominence. In the volume of transactions, the Royal Bank occupies the premier position, followed by Commerce, Montreal, and Nova Scotia.[196] The extent to which the Canadian banks engage in the financing of foreign trade is reflected in the accompanying chart which gives as of the last banking day in December of each year since 1913 (the first year this item was included in the returns) the amount of acceptances outstanding issued under letters of credit. Since the amount of bills of exchange which a member bank in the United States may accept is directly proportionate to capital and surplus, the relation of these items is also shown. Though no definite ratio is stipulated by Canadian law, but as will be noted, the ratio of acceptances to paid-up capital and surplus has fluctuated from 7% to as high as 49%.[197]

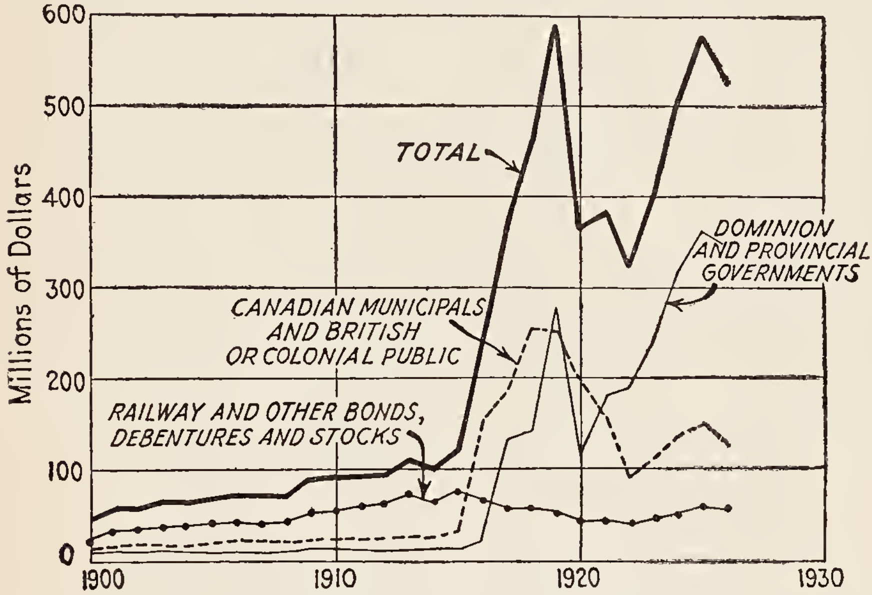


Fluctuations of Acceptances in Per Cent of Capital and Surplus

Investments. Though the chartered banks are primarily commercial institutions, a considerable, and a steadily increasing amount of their funds is being placed in bond investments, which

[196] The letters of credit are now customarily issued in dollars rather than in sterling by reason of changed trade conditions.
[197] Source of data: *Returns of the Chartered Banks.*

amount at the present time to about one-fifth of their total resources. This is about equal to the ratio of the investments to the assets of National Banks. The returns of the banks divide their security holdings into three categories: (1) Dominion and Provincial Government securities, (2) Canadian municipal securities and British or Colonial public securities (other than Canadian), and (3) railway and other bonds, debentures and stocks.[198] Fluctuations in these are shown in the accompanying chart: [199]



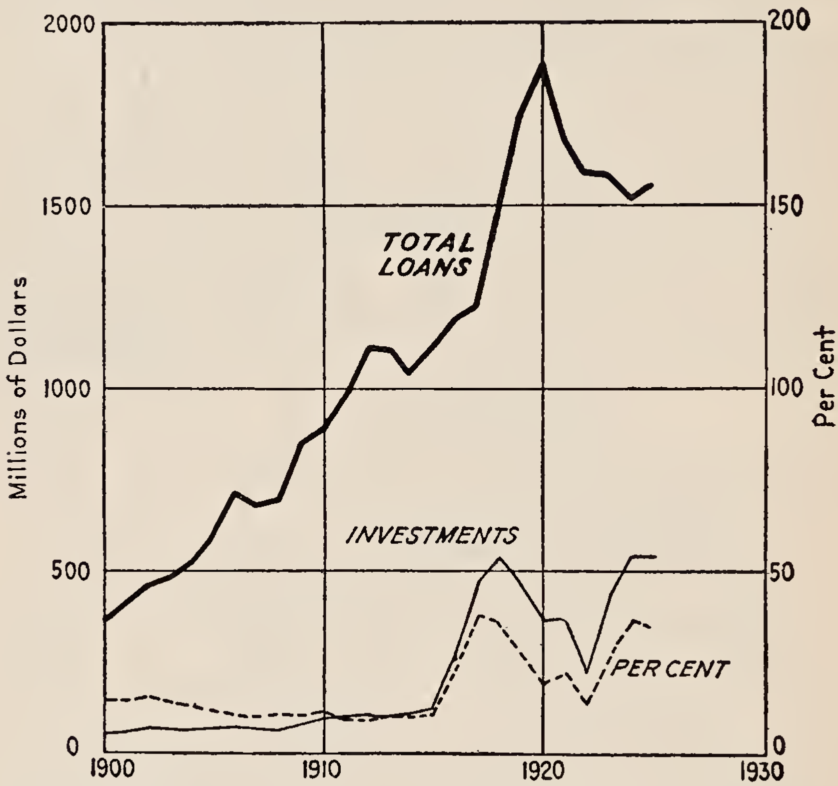
SECURITY HOLDINGS OF THE CHARTERED BANKS

INVESTMENT-LOAN RATIO. In the next chart total loans and investments are compared, as well as the ratio between these two series. From 1900 to 1913 loans were increasing at a more rapid rate than investments, but coincident with war financing the latter grew rapidly, attaining the relative highest point in 1917. Following this there was a decline in the ratio continuing until 1922 with a subsequent increase which is probably due to changes

198 Mr. H. C. McLeod advocated in 1913 that each bank should annually publish a list of its investments, a practice which had been followed by the Bank of Nova Scotia. (*Minutes of Proceedings, Evidence, etc.*, 1913, p. 110.)

199 The large holdings in 1910 were due to war loans. Securities were gradually passed on to the investors. Source of data: *Returns of the Chartered Banks*. Data as of last banking day in July of each year.

which have taken place in methods of domestic financing. The larger businesses, by reason of the current practice of " hand-to-mouth " buying have been less dependent on bank loans. This lessened demand for credit released a portion of the banks' resources which have been placed in investments or on the call loan market of New York.[200]



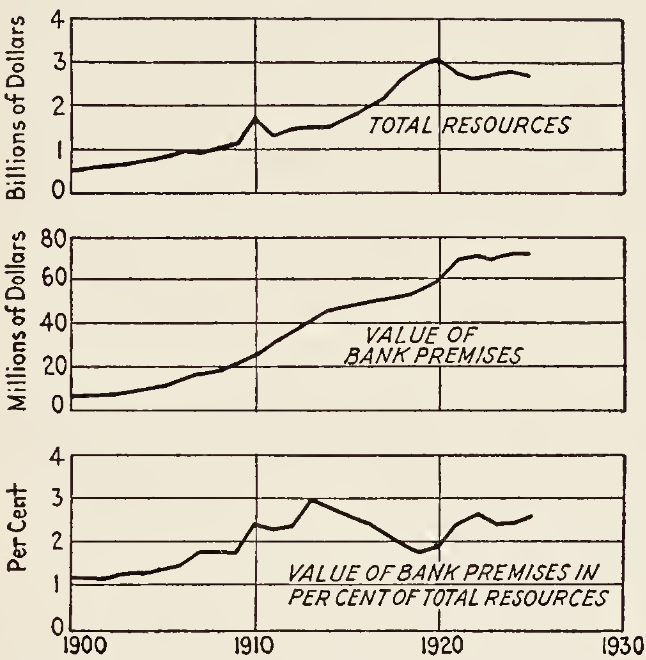
Fluctuations of Security Holdings of the Chartered Banks Compared with Total Loans

Bank Premises. Considerable criticism has been directed at the chartered banks for their very heavy investments in their premises. Statements to this effect were made in the 1913 hearings and debates on the Bank Act and again in 1923. That a larger per cent of the resources of the banks is now invested in bank premises than at the beginning of the century is clearly shown in the accompanying chart. In 1900 bank premises repre-

[200] See article by J. Courtland Elliott in *The Annalist,* January 14, 1927, pp. 57–58. Source of data: *Returns of the Chartered Banks.*

sented 1.2% of total assets, whereas in 1925 they represented 2.6 per cent.

In his testimony in 1923 Sir Edmund Walker explained the growth of this item in terms of the Western expansion of his institution. Before 1900, he said, the policy of his bank was to rent offices in all moderately-sized towns and to own only in large cities. However, when the bank expanded to the West, it was found that there were no landlords, that offices had to be built. Some were even constructed in British Columbia in sections and



Value of Bank Premises in Per Cent of Total Resources is Considerably Higher Now Than in 1900

carried on trains to the prairies.[201] In its annual report for 1924 [202] the Royal Bank defended as quite necessary the investments in buildings in order to have conveniently located buildings of adequate size. Be that as it may, the investments in bank premises seem unduly high. As a percentage of paid-up capital and surplus, bank premises amount to almost 30 per cent.[203] In

[201] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 530–531.
[202] See p. 8.
[203] Return of July 31, 1926.

1890 bank premises amounted to but 5.11% of paid-up capital and surplus; in 1900, to 6.39%; in 1910, to 13.72%; in 1920, to 23.13%. The growth is an unfortunate and unhealthy tendency. Not alone is it questionable to have about one-third of capital and surplus represented in bank premises, but in some cases these have not been written down as rapidly as desirable. Bank premises should, according to an eminent Canadian banker, be written down by at least one sixth each year.[204]

Reserves. To the banker in the United States the term reserve has a strictly legal connotation, the size of the deposit which he, if his institution is a member of the Federal Reserve System, must maintain with the Reserve Bank. The chartered banks, on the other hand, are not required by law to maintain fixed or definite reserves against deposits. The legal concept of reserve is foreign to bankers in the Dominion. Nevertheless, they do have a most clear economic concept of the necessity of holding reserves and of the most liquid or realizable constituents. The Canadian banker thinks of his reserve as being composed of:

(1) Cash on hand. This amounts usually to 10% or more of net liabilities, but as the chart on p. 434 indicates has fluctuated all the way from 7.9 to 15.4 per cent.
(2) Deposits with banks in foreign countries.
(3) Call loans in New York and London.
(4) Securities and commercial paper.

Cash on Hand. The cash holdings are not concentrated in one location, but are distributed by the banks among those branches where the need will be greatest and particularly where clearing house settlements are apt to be largest. In testifying before representatives of the National Monetary Commission, Mr. Coulson, a Canadian banker, declared that there was an understanding among members of the Bankers' Association that they were to maintain in cash an amount equal to 15% — he probably meant of deposits, though this was not made clear.[205] While the amount of cash reserve required to be held is not stipulated, by section 60 of the Bank Act it is provided that each chartered bank must hold

[204] H. C. McLeod.
[205] *Interview on the Banking and Currency Systems of Canada*, pp. 41–44.

Dominion notes to the extent of 40% of such cash reserves as are maintained in Canada. The reason for this provision was explained by Sir Edmund Walker in testifying in 1913 as follows: [206]

> English and American bankers often ask why the Act contains this 40 per cent provision. It is a thing that was put into the Act at the time of Confederation because Nova Scotia and Old Canada had issued legal tender notes. They amounted to less than $5,000,000, but the new Dominion of Canada was so poor that it could not afford to pay them off. So it also began the issue of legal tender money — not secured, or only partially secured, by gold — and in order to force the banks to carry these legal tenders, they put into the Bank Act a provision that whatever reserves the bank carried 40 per cent must be in legal tender notes. That provision ought to come out of the Act because it has no longer any significance.[207]
>
> Q. Does the provision serve any purpose today? — A. It does not serve any good purpose.

One interesting feature of the chart at the top of the next page, showing the constituent parts of the cash holdings of the chartered banks, is the increase in recent years of holdings of United States and foreign currencies:

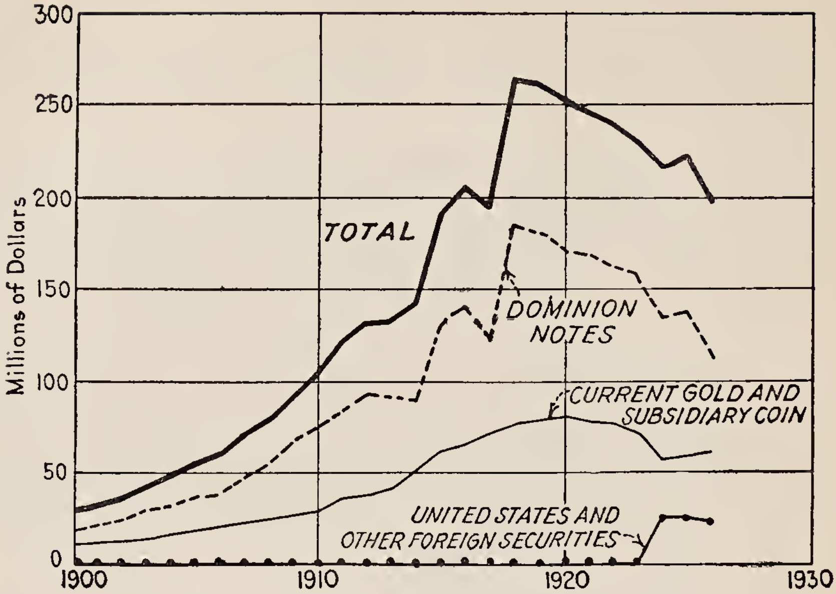
Deposits as Reserves. The volume of deposits due the chartered banks from foreign banks are represented in the chart at the bottom of the next page. The amount on deposits now with banks in the United Kingdom amounts to only 15% of the total. The remainder is held mainly in banks in the United States. The close economic ties between the two countries would be one factor accounting for the greater proportion of deposits in New York. Another is that from 1914 until April of 1925 England was on the paper basis while the United States maintained a free gold market.[208] The bulk of the deposits held in England by the chartered banks are those of the Bank of Montreal.[209]

[206] *Minutes of Proceedings, Evidence, etc.*, 1913, p. 580.

[207] During the war the character of Dominion notes was considerably changed, see pp. 387–401. Source of data for chart: *Returns of the Chartered Banks*. Data as of last banking day in July each year.

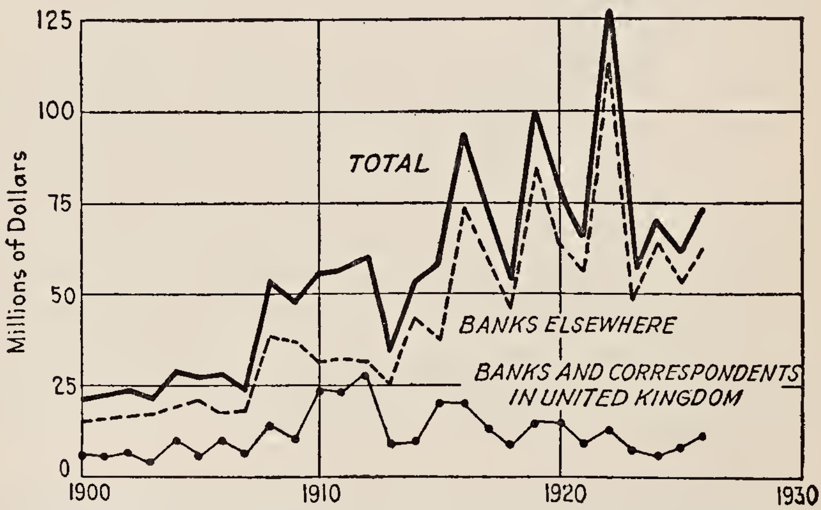
[208] See p. 537 of *Minutes of Proceedings, Evidence, etc.*, 1913.

[209] Source of data: *Returns of the Chartered Banks*. Data as of last banking day in July each year.



Currency Holdings of the Chartered Banks

Call Loans. Since there is no money market in Canada [210] the banks there rely on the money markets in London and New York, but principally upon the latter's call loan and acceptance markets. The fact that rates in the New York call loan market



Volume of the Funds of the Chartered Banks Placed on Deposit with Foreign Banks

[210] See *Interviews on the Banking and Currency Systems of Canada*, p. 127. See p. 291 of this chapter.

usually rule above rates on call in London and that gold shipments may be made more quickly and easily from there to Canada are among the reasons accounting for the practice of holding the bulk of such loans in New York.[211] As would be expected the call loans of the Canadian banks exhibit seasonal fluctuations corresponding roughly to the seasonal credit requirements of agriculture. The following index of seasonal variation was based on monthly data from 1913 to 1926:

Adjusted Index of Seasonal Variation of Call and Short Loans Elsewhere than in Canada

Month	Index	Month	Index
Jan.	94.8	July	99.4
Feb.	100.9	Aug.	98.3
Mch.	101.9	Sept.	97.4
Apr.	103.0	Oct.	95.4
May	104.2	Nov.	103.2
June	103.6	Dec.	97.9

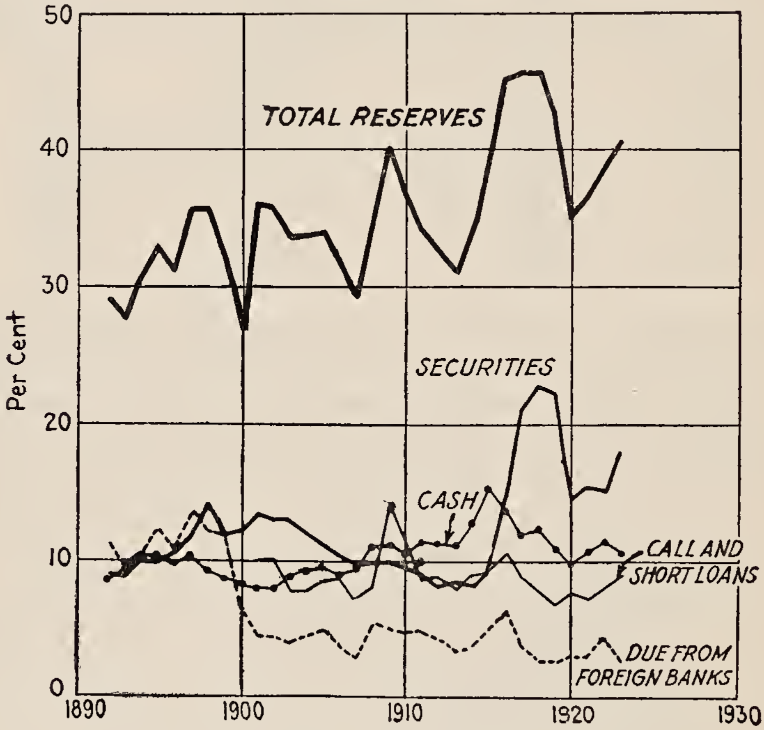
Investments. The fourth earning asset considered as a reserve is investments in bonds and commercial paper. The practice of the chartered banks of considering bonds as reserve has been criticized on the score that these could not be readily sold in case of need. For at a time when they most urgently require funds, the bond market might be depressed at home and abroad. Particularly was such the case in the United States prior to the Reserve System when that country was visited periodically by panics rendering the sale of American bonds virtually impossible.[212] This condition has been remedied through the stabilizing influence of the Reserve System which has given greater security to the bond market and made bonds more readily salable or shiftable. As shown in the chart on p. 427 the bond holdings of the chartered banks declined only slightly in the years of depression between 1907 and 1908. On the other hand, from 1919–1920, there was a greater decline consisting largely of sales of Dominion and Provincial Government securities and Canadian municipals and repayments of short-term Treasury Bills. By way of summary, bonds do not constitute a particularly good secondary reserve, they are apt to be purchased when bond prices are high, i.e., when interest rates are low, when there is a limited commercial demand

211 For the amount of call loans, see pp. 415–418.

212 *Ibid.*, p. 165.

for funds, and sold when bond prices are low, when interest rates are high, and when there is an intense demand for funds on the part of trade and business.[213]

The following chart gives the per cent fluctuations in the various "reserves" held by the chartered banks. The amount due from foreign banks is not as large relatively as in the nineties, securities are much larger, cash somewhat larger, and call and short loans about the same.[214]



Reserves as a Per Cent of Net Liabilities

Reserve Policy. The reserve policy followed by the chartered banks was outlined by Sir John Aird, General Manager of the Canadian Bank of Commerce, in his testimony in 1923, which is inserted as typifying more or less the official attitude of the banks: [215]

[213] In this connection see p. 97 of *Interviews on the Banking and Currency Systems of Canada.*

[214] Source of data: *The Canada Year Book,* 1924, p. 804.

[215] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 348.

Q. In that connection what percentage of your deposits does the bank keep on hand for present emergencies? — A. We have fifty per cent, — we think fifty per cent is a safe percentage and then we have our liquid reserves. In liquid reserves the first line of defense is your gold and legal tender; your second line of defense is your security in the way of Government bonds, provincial and municipal that you can sell on the market; your third which might possibly be made the second and the one which I have made second may be made third, are call loans in Toronto, Montreal, New York and London. A bank that is on a safe basis should have anywhere from 40 to 60 per cent of this class of securities and cash. We think 50 per cent is fair. The Bank of Montreal have a little larger, being the Government bank; they have that percentage.

With regard to the same problem Sir Edmund Walker testified: [216]

Q. Can you tell me if any proportion of a bank's reserves are idle during the year? What proportion of reserves must you keep immediately available? — A. Well, we keep about from ten per cent to twelve per cent in actual cash; twenty to thirty per cent in quick loans, and forty to fifty per cent reasonably quickly got at. Not more than forty or fifty per cent of our money is lent out on time.

In times of crises several methods are open to the Canadian banks desirous of improving their cash position. They may withdraw their call loans or deposits from abroad, may sell or borrow on their securities, and since 1914 have been able to borrow from the Government. Another method followed is that of selling commercial paper to note brokers, which was described by Mr. H. O. Powell, General Manager of the Weyburn Security Bank in the 1923 hearings.[217] Another policy the banks follow during crises to improve their cash position is that of instructing the managers in the larger centers to keep their loans well in hand and not to make further commitments. The loans in smaller places are left pretty much undisturbed.[218] Through adopting one or more

216 *Ibid.*, 1923, p. 574.
217 *Ibid.*, 1923, p. 405.
218 *Interviews on the Banking and Currency Systems of Canada*, p. 175.

of these methods, the chartered banks have been able to weather successfully the crises through which the Dominion has passed. The record of her neighbor to the South is not nearly so satisfactory, for the United States prior to 1914 regularly suspended cash payments at times of crises though her per capita gold holdings were among the largest of any nation.[219]

AUDITS, EXAMINATIONS, AND RETURNS. One of the distinguishing characteristics of banking in the United States is the periodic governmental examinations and inspections. These, in the case of National Banks, are expected to be made at least twice a year. In the case of many states, examinations are made as frequently and standards are quite as high if not superior. Even so it must be admitted, that in many states the examination staff is undermanned and poorly paid, and the character of the work poor. Not only do the Comptroller of the Currency and state banking departments have the duty of examining banks under their control, but the Federal Reserve Banks may examine member banks and many clearing houses, since 1907 when the panic of that year revealed glaring weaknesses in bank policies, have also assumed this obligation. As a matter of interest, a national bank in New York City, assuming it is a member of the clearing house, would be examined by representatives of the Comptroller of the Currency, of the Federal Reserve Bank of New York, of the clearing house, and if it happened to have a trust department, that could also be examined by the state banking department of New York. As has been so frequently stated in this chapter, the reason accounting for the many examinations and the mechanistic standards of technique to which bankers in the United States must adjust their operations is the unit type of banking system, banks operated by persons, who have gained a monetary success in other lines, who are not bankers by tradition, and who often have little concept of the public nature of their profession.

Until 1924, Government examination or inspection of banks did not exist in Canada though it had been advocated from time

[219] In one of his studies Prof. J. Courtland Elliott indicates that the ratio of cash reserves will be determined by:

(a) Structure of the banking system.
(b) Character of the liabilities.
(c) Availability of secondary reserves.
(d) The general economic situation.

to time. In consequence, however, of the failure of the Home Bank and of the scandalous nature of its operations, provisions were then inserted in the Act providing for the appointment of an Inspector-General of Banks.

Prior to the establishment of Government inspection, the Act required and in fact still does require an audit under the direction of the shareholders. The section requiring this had been inserted in the Act at the time of the 1913 revision as the result of the arousing of public opinion by several prior bank failures and of the crystallizing of this sentiment by Mr. McLeod. It was hoped by some that the shareholders' audit would detect mismanagement at the head office and so cut down the number of failures. But the provision did not measure up to the anticipations of the public, and in consequence of the debacle of the Merchants Bank, it was rewritten and greatly strengthened in the 1923 revision.

In addition to the examinations conducted by the Inspector-General and by the shareholders' auditors, the branches are examined by a staff of inspectors, sent out by the head office, who unannounced visit each branch at least once a year. Upon their arrival the inspectors immediately count the cash on hand, balance the books, and verify every item appearing on the balance sheet.[220] A detailed report on every loan is made which is transmitted to the head office along with the chief inspector's impressions of the management of the branch. In his testimony before the Banking and Commerce Committee in 1923, Sir Edmund Walker declared that it took the entire time of fifty highly trained and competent men to make the internal inspection of the Canadian Bank of Commerce.[221]

THE STRUGGLE FOR THE SHAREHOLDERS' AUDIT. Before and during the hearings on the revision of the Bank Act in 1913, the chartered banks, aside from the Bank of Nova Scotia, vigorously opposed any form of external inspection and in fact rather reluctantly accepted the audit provisions more as an escape from outside examinations than by reason of any faith held. The Bank

220 For an account of this system, see *Minutes of Proceedings, Evidence, etc.,* 1913, p. 240.

221 See p. 516. In 1912 the Bank of Commerce spent $102,762, for the examination of its branches. *The American Economic Review,* 1913, p. 994.

of Nova Scotia, itself, under the farsighted leadership of its General-Manager, Mr. H. C. McLeod, was a pioneer in advocacy of bank examination. In an address before the shareholders in 1910, he indicated he was not satisfied with the then existing banking conditions, that external inspection was needed, but would probably not be adopted in as much as all members of The Canadian Bankers' Association were most emphatically opposed.[222] The attitude of the bankers at that time was expressed in the testimony of Sir Edmund Walker in 1913, who declared that every nook and cranny of the bank was inspected by its own staff and that he did not believe in Government inspection, that it would not be useful, and he indicated that it had not been effective in the United States.[223]

This lethargic attitude was confined mainly to the banking community for the ideas advanced in favor of external inspection had found some acceptance among the public and by their parliamentary representatives. In response to this widely prevailing feeling the Government cabled Mr. McLeod, who, in the meantime, had retired from the Bank of Nova Scotia and was in Italy, to return and to present his views before the Committee on Banking and Commerce to assist it with the drafting of the 1913 revision. Upon returning he testified that the Finance Department had failed " to exercise effective control over the banks " and that the Government was extremely reluctant to assume any responsibility lest this should be interpreted as an assumption of liabilities in the event of insolvency.[224] He suggested that the Finance Department might establish a bureau or Board of Bank Inspectors selected by the General Managers.[225] He criticized the proposals for a shareholders' audit contained in preliminary drafts of the Bank Act for not carefully stipulating the qualifications of the auditors, and for opening the way for the appointment of

[222] See p. 23. *Seventy-Eighth Annual Report,* Bank of Nova Scotia. In 1913, Mr. McLeod declared he had been an advocate of bank inspection for nearly twenty years, that The Bankers' Association had been unanimously opposed to such proposals and that at some meetings he could not get a hearing. *Minutes of Proceedings, Evidence, etc.,* 1913, pp. 144–145. Mr. McLeod, "to practice what he preached," had had the Bank of Nova Scotia audited by chartered accountants from Scotland.

[223] *Minutes of Proceedings, Evidence, etc.,* 1913, p. 500.

[224] *Ibid.,* 1913, p. 108.

[225] *Ibid.,* 1913, p. 110.

auditors who would be " dummies " of the General Manager. The inspectors should, he declared, examine each bank at least once a year, which inspection might possibly be confined simply to the head office.[226] While he admitted that external inspection could not by itself prevent all bank failures, yet it would have prevented such a bank as the Ontario from continuing in an insolvent condition for 25 years and the Farmers' Bank from being established when everyone knew that, from its very inception, the bank was unsound and would ultimately fail.[227]

The provisions as drafted did not provide for external inspection but required instead a shareholders' audit without taking sufficient care to guarantee the proper qualification of the auditors.

Revision of Audit Provisions in 1923. The circumstances surrounding the debacle of the Merchants Bank led to a thoroughgoing revision of the shareholders' audit provisions in 1923. It had developed that the auditors had not made a careful valuation of the securities, loans, mortgages and hypothecs,[228] and the only explanation of the auditors' failure (the auditors were two partners in the same firm) was that through long associations with the bank they had lost a proper perspective.[229] The feeling was general that thoroughgoing changes were necessary to prevent a repetition of such conditions. In the redrafting of the audit provisions, the proposals and amendments suggested by Mr. George Edwards were largely followed.[230]

The rather obviously necessary provision was added to the Act stipulating that the auditors selected must be experienced and belong to an incorporated association of accountants. The wisdom of this provision was borne out later when it was revealed that the Home Bank had not been audited by a man who was either an accountant or who had had experience.[231]

Then, in the second place, it was provided that the audit should be made by two persons, not members of the same firm, one of

226 *Minutes of Proceedings, Evidence, etc.*, 1913, p. 142.
227 *Ibid.*, 1913, p. 142.
228 *Proceedings of the Select Standing Committee on Banking and Commerce*, 1924, p. 25.
229 *Ibid.*, 1923, p. 760.
230 *Ibid.*, pp. 735–739.
231 *Ibid.*, 1924, p. 383.

whom should be replaced by another auditor after two years of service. The advantages from such an arrangement were described by Mr. George Edwards, a chartered accountant, in the following terms: [232]

> A further consideration of much value would be that an auditor might be replaced without exciting public alarm. Even under the proposal in the Bill that there shall be two auditors for a bank, each independent of the other, a proposal to refuse to one of them the reappointment he looks for might be a very dangerous thing. The periodical retirement of an auditor, under the statute, would obviate all these risks and afford corroborative evidence to the shareholders that their investment was sound.

Another important change consisted in making more definite and inclusive the certificate which the auditors must sign upon completing their examination. So definite and precise was this that the auditors could not possibly plead any excuse for neglect to understand the full and true position of a bank.[233]

A provision which occasioned a considerable amount of comment and discussion was that prohibiting an auditor from accepting any retainer or undertaking any employment on behalf of or at the instance of the bank whose accounts and operations were being scrutinized. Sir Edmund Walker had opposed this provision on the ground that the usefulness of the auditors would be largely defeated and to know intimately the condition of the bank that they should be allowed to audit subsidiary realty companies or the affairs of large customers.[234] A chartered accountant, Mr. G. T. Clarkson, asserted that the adoption of this clause would compel his firm to withdraw from the field of bank auditing.[235] It required, he said, a staff of twenty-five competent and highly trained men a considerable amount of time to undertake a bank audit, which was a heavy piece of work and the direct remuneration was so small that unless his firm were permitted to

[232] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 760.
[233] *Ibid.,* 1924, pp. 7 and 42.
[234] *Ibid.,* 1923, p. 519.
[235] *Ibid.,* 1923, pp. 725–728.

engage in other work on behalf of the bank that it would be compelled to take this action. Mr. George Edwards defended the provision on grounds of professional ethics, and explained that while an auditor could not carry on special work for the particular bank whose affairs he was auditing this disability did not of course apply to the other chartered banks.[236]

Another change required the auditors to report to the General-Manager and to the directors of the bank, whose business was being scrutinized, each loan in excess of 1% of the paid-up capital of the bank which seemed inadequately secured and in general upon any transactions which appeared unsatisfactory. As explained by Mr. Edwards, the advantage of this was that it obliged the auditors to follow closely and continuously the affairs of the bank: [237]

> Subsection 10 is a clause which is a very great advance upon the previous Act, inasmuch as it obligates the auditors to follow the course of business from time to time throughout the year. The previous audit clause permitted an auditor to attend twice a year for certain purposes, and if he satisfied himself once a year under the terms of the Act as it then stood, he had performed his duty; but under the present Act, an auditor has not performed his duty when he goes that far; he must go farther, and must examine the credits and the securities and report to the directors from time to time. Each auditor is responsible for doing that, and each auditor is responsible for informing each of the directors in writing in the way prescribed by the Act as to the condition of those credits and anything respecting them with which he is not fully satisfied.

GOVERNMENT INSPECTION. The suspension of the Home Bank on August 17, 1923, which followed closely upon the 1923 revision, was the immediate cause of the amendment assented to on July 19, 1924, which provided for the examination of the chartered banks by the Government. Government inspection had received wide publicity through its advocacy on the part of Mr. H.

[236] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 765.
[237] *Ibid.,* 1924, p. 7.

C. McLeod in the first decade of the century. As stated above, he vigorously argued in favor of this before meetings of the Bankers' Association and before the House of Commons Committee in 1913. The bankers were unalterably opposed then and again in 1923 when the question was once more discussed. Thus Sir John Aird stated before the Committee that the Government did not have the ability, the efficiency, or the means to examine banks and that it would assume a responsibility in so doing of protecting the depositors against loss.[238] As an illustration of the hostility of the bankers, in a pamphlet entitled "Banks and Banking" issued by the Canadian Bankers' Association in 1923, several pages were devoted in an effort to convince the public of the impossibility of Government inspection.[239] In its annual report for November 30, 1923,[240] the Canadian Bank of Commerce stated that government inspection in other countries did not impress it favorably and that in the United States it had become a "factor imperilling the successful future of the National banking system." In this whole question the bankers took a purely negative attitude and in the opinion of *The Monetary Times*[241] lost a great opportunity to "suggest a workable scheme of government inspection, which would really inspect, and at the same time not interfere with the free working of banking operations." The government of the day was itself opposed, feeling that adequate protection was given the public by the redrafted audit provisions and that it was not wise to go further.[242]

The opposition to Government inspection vanished in thin air following the failure of the Home Bank. From that time on there was no argument over the merits of inspection. The discussion centered around the methods to be followed and the provisions to be drafted. Upon the convening of Parliament, the Select Standing Committee on Banking and Commerce was directed by a resolution passed on March 31, 1924, to make

[238] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 378–379.

[239] See pp. 9–13.

[240] See pp. 34–35.

[241] 1924, p. 3.

[242] See speech of the Hon. Mr. Fielding, *House of Commons Debates,* June 19, 1923, pp. 4088–4090.

recommendations which would prevent such occurrences as the Home Bank episode in the future: [243]

> "That in the opinion of this House, in view of the failure of the Home Bank and of the fact that official prosecutions and inquiries have been instituted, including the Royal Commission which has been appointed to investigate the facts alleged in the petition represented by the depositors of the Bank and the affairs of the Bank generally; and considering that the evidence received and to be taken before the several tribunals will be available for consideration, the Select Standing Committee on Banking and Commerce should be instructed to consider the provisions of the Bank Act with a view to recommending such amendments to the Act as will better protect the interests of depositors generally and will prevent similar occurrences in the future; and also to consider the report of the Royal Commission in its bearing upon these matters and with respect to the possibility of saving the Home Bank depositors from loss," be referred to the Select Standing Committee on Banking and Commerce for such action as the Committee may deem advisable.

The Committee held hearings from May 13 to June 12 in the course of which some ten witnesses testified, including among others Mr. George Edwards, chartered accountant; Mr. George D. Finlayson, Superintendent of Insurance at Ottawa who had charge of the examinations of loan and trust companies incorporated under the laws of the Dominion; Mr. C. E. Neill, then acting-President, Canadian Bankers' Association; Mr. Henry T. Ross, Secretary, Canadian Bankers' Association; Mr. J. C. Saunders, Deputy Minister of Finance; Dr. H. M. Tory, President of Alberta University; Mr. John W. Pole, Chief National Bank examiner, Washington, D. C.; and Mr. J. Skelton Williams, a former Comptroller of the Currency of the United States.

A question which arose immediately was whether the Government examiner could conceivably become sufficiently and thoroughly acquainted with an institution having hundreds of branches widely separated. Mr. George Edwards felt confident that a

[243] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1924, p. VI.

person by inspecting the head office and principal branches and by examining the reports sent in by the branch managers, the bank's own inspectors and the shareholders' auditors could readily form an opinion regarding the management and position of a bank.[244]

A strong argument in favor of Government inspection, largely of a psychological nature, and one which had much weight, arose from the fact that the Minister of Finance under the old provisions would not order a special examination excepting under the most extreme circumstances for to do so would cast grave suspicion upon the bank and, in order to eliminate the spectacular, the examinations should be made periodic and a matter of routine.[245]

On June 5, Mr. Robb, then the Acting Minister of Finance, outlined the main features of the system of inspection sponsored by the Government.[246] These formed the basis of a new Section, 56, of the Bank Act which was assented to on the 19th. It was provided that the Governor-in-Council, upon the recommendation of the Minister of Finance and Receiver General, was to appoint the Inspector General of Banks who was to hold office during good behavior. The Inspector, not less than once a year, was to make or cause to be made such examination or inquiry into the affairs of each bank as he deemed necessary or expedient, to ascertain whether the provisions of the Bank Act were being observed and whether the bank was in a sound financial condition. Should the inspector be convinced that a bank is insolvent he is to report such information to the Minister of Finance and Receiver General who might, without waiting for the bank to suspend, request The Canadian Bankers' Association or the President thereof to appoint a curator to supervise its affairs. The expenses incurred were to be paid from the Consolidated Revenue Fund and recouped after the end of each calendar year by an assessment upon the banks based upon their average assets through the year. In October, 1924, Mr. C. S. Tompkins, formerly associated with the Royal Bank, was appointed as Inspector General.

[244] *Proceedings of the Select Standing Committee on Banking and Commerce*, 1924, pp. 19, 26, 31 and 49.

[245] *Ibid.*, p. 251.

[246] *Ibid.*, p. 299.

Returns of the Chartered Banks. By section 54 of the Bank Act the chartered banks must transmit monthly to the Minister of Finance, in a form prescribed by the Act, their financial statements. Amendments to this section were adopted in 1923 which called for more precise and complete information. The assets are grouped into some 30 categories and the liabilities into 17. Such pertinent information is given as the aggregate amount of loans to directors and firms of which they are partners and loans for which they are guarantors; the amount of non-current loans; of shares of, and loans to, controlled companies; of the greatest amount of bank notes in circulation during the month; etc. These returns are among the most complete and detailed required by any government and are a mine of information. The United States could well take a leaf from Canadian experience and require monthly returns from all national banks which information could be used to supplement that given in the weekly returns of the reporting member banks of the Federal Reserve System.

Controlled Companies. By a provision inserted at the time of the 1923 revision, the chartered banks must report the assets and liabilities and the interest of the Bank therein of each controlled company through which it conducts any of its operations. Several of the banks have subsidiary realty companies which build, borrow thereon, control and operate the property in which the bank has its offices. Such a company may be formed to take over the real estate acquired by a bank in the settlement of an obligation and which it must dispose of by the provisions of the Act. The Royal Bank owns the Globe Realty Co., Ltd., and the Royal Bank of Canada, France. The Bank of Montreal has four subsidiary companies and the Canadian Bank of Commerce has five.[247]

The Bankers' Association. By section 124 of the Bank Act, there have been delegated powers and administrative duties to The Canadian Bankers' Association, an incorporated organization, unknown to any similar association in the world. The origin of this unique body has been sketched by Sir Edmund Walker in a booklet entitled "Canadian Banking"[248] which reveals that some

[247] The realty company idea was introduced into Canada by the Bank of Commerce in 1907.

[248] See pp. 31–32.

of the bankers following the revision of 1891 felt it would be to their mutual interest to organize an association similar to the ones existing in England and the United States. The announced purposes of the new organization were those of watching legislation, court decisions and of guarding the interests of the chartered banks. In the next revision an incorporated body (at the request, so it is asserted, of the Government) was created by the Act to replace this voluntary organization and was granted quite definite powers:

(1) To establish sub-sections of the Association. One, for example, has been organized at Winnipeg and another in Vancouver.
(2) To appoint a curator for a bank which suspends payment and to supervise its affairs until the resumption of its business or until a liquidator is appointed.
(3) To establish clearing houses whose by-laws must be approved by the Treasury Board.
(4) To supervise the printing, delivery and destruction of bank notes and to inspect the circulation accounts of the individual banks.[249]
(5) To supervise the custody and management of the Central Gold Reserves.[250]
(6) To impose penalties for the breach or non-observance of any by-law, rule, or regulation (adopted by approval of two-thirds in number of the banks, provided that such banks have at least two-thirds in par value of the paid-up capital) made by virtue of this Section of the act, all such by-laws, rules or regulations being subject to the approval of the Treasury Board.

The Bankers' Association, whose establishment was largely the work of Sir Edmund Walker, naturally takes a most active interest in the revisions of the Bank Act. During the discussions leading to the revision of 1923, several pamphlets were issued designed to enlighten public opinion regarding banks and banking

[249] For a detailed account of this, see the testimony of Mr. Henry T. Ross before the Committee on Banking and Commerce in 1924, pp. 317–318.
[250] See pp. 385–387.

problems, but which were chiefly concerned in arguing the maintenance of the *status quo* in legislation. Like many associations of bankers its stand on legislation is ordinarily not constructive but rather negative in an advocacy of "letting well enough alone." For example, the association opposed vigorously the introduction of the audit and inspection provisions in the Bank Act. Indeed it is noteworthy that the various changes strengthening and improving the act have had their initiation outside of, rather than from within, The Canadian Bankers' Association, dominated as it has been by the larger banks.[251] It is true that in its supervisory functions it has rendered worth while services and that its *Journal* is a distinct contribution to banking literature.

CANADIAN BANKS AND THE ECONOMIC DEVELOPMENT OF THE DOMINION

The responsibility of a banking system for a nation's economic development and ascendency is impossible to measure exactly or to express in really satisfying quantitative terms, and particularly is this true in evaluating the contributions of one type of banking system as contrasted with another. That the modern state needs efficient credit institutions is but axiomatic, just as it needs good railroads, harbors, etc., for the furtherance of trade and produc-

[251] See pp. 138–139 of *Minutes of Proceedings, Evidence, etc.,* 1913.
Relative to this statement, Mr. Henry T. Ross wrote as follows: "The further statement that the Association has contributed virtually nothing towards the strengthening and improving of the Act also requires modification. Sir Edmund Walker, at revisions of The Bank Act since 1881 (after 1890 appearing on each occasion as one of the representatives of the Association) was recognized by successive parliamentary committees as contributing in a material way, by reason of his knowledge of the practice and science of banking, to improvements in the Act. Several of the improvements in the amendments of 1923, and the inspection provisions of 1924 emanated from representatives of the Association. As to the assertion that its (the Association's) advice to the Government has almost without exception been of a negative character, in addition to the constructive work done in the several revisions of The Bank Act by the Association's representation, successive Ministers of Finance have acknowledged the valuable advice and assistance given by the Association on various occasions, particularly in regard to the financial legislation incident to the Great War, and the assistance which the Association rendered in various directions at that time."

tion. That is all assumed. Our problem rather is that of estimating the contributions of the particular type of banking system existing in Canada to the economic growth and stability of the country, especially as contrasted with the services which might have been rendered by a unit independent type of banking system if such existed.

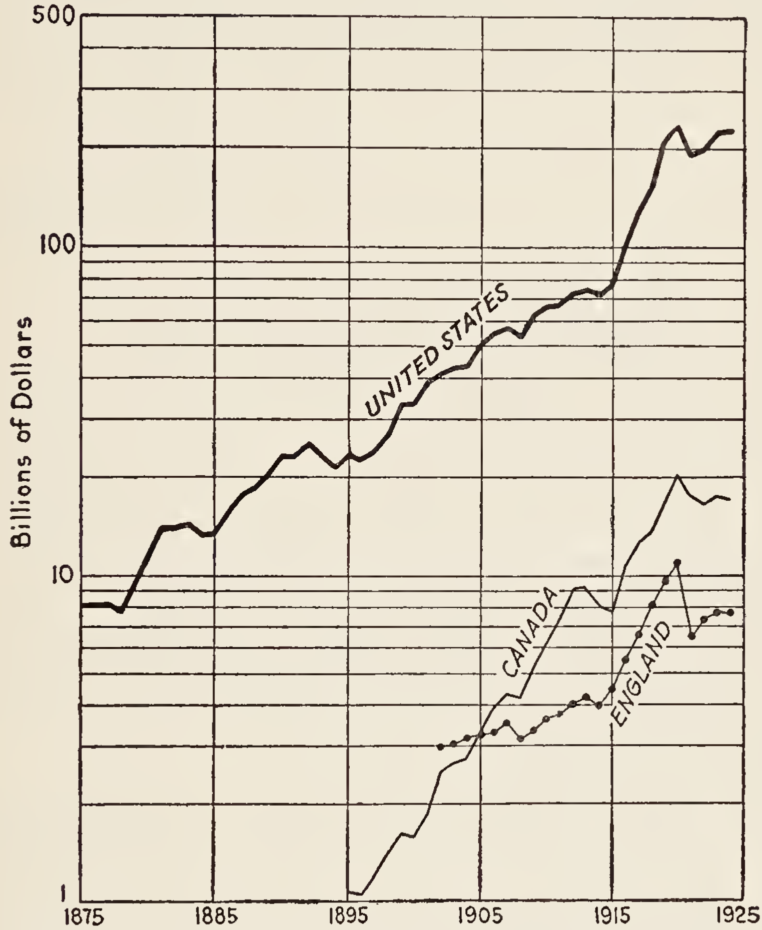
CANADA'S ASCENDENCY. To the opponents of branch banking in any form in the United States, and especially to the " die-hards," Canada is pictured as a part of the Arctic wilderness whose people are subservient to the all-powerful and grasping branch banks. The statistical data available belie all statements as to the economic serfdom of the Canadians and reveal them as having enjoyed unexampled prosperity. Thus in a recent study by Drs. Thorp and Mitchell, Canada leads seventeen countries in the number of years of prosperity per year of depression. For the period from 1888–1924 Canada has had 1.86 years of prosperity for each year of depression while the United States has enjoyed but 1.79 years and the average for the seventeen countries is but 1.14 years.[252] Canada's remarkable and phenomenal growth in economic power is also portrayed in the ratio chart on page 449 which compares annual bank clearings in the United States, Canada, and England. The percentage growth in the case of Canada (in spite of the effect of mergers and amalgamations on clearings) far exceeds that of the other two countries.

RELATION OF CANADIAN PROSPERITY TO BRANCH BANKING. Statistical analyses establish beyond any reasonable doubt the extent and degree of Canada's economic development, growth and prosperity, the nation which leads all others in the number of years of prosperity. Either because or in spite of her banking system, she has achieved this, and the evidence indicates that her banking system has played an important part. Not the only part, for the railroads, the land and immigration policy of the Government have all had a share.

The statement just made that her banking system is in part responsible and has accomplished more than could an independent unit-type was corroborated by replies received to a questionnaire sent by the writer to a number of Canadian economists.

[252] Thorp, Willard Long and Mitchell, Wesley C., *Business Annals*. New York: National Bureau of Economic Research, Inc., 1926. p. 65.

One answered that there is little doubt that branch banking has helped materially and is still doing so in the progress of the country and especially in the rapidly expanding sections. The branches frequently do not pay for at least three years. With a system of local banks the newly settled territories would not get



Annual Bank Clearings in the United States (Excluding New York), in Canada and in England (Excluding London). Pounds Converted to Dollars at Annual Average Rates of Exchange

the banking facilities, which they need, so quickly or so efficiently. Another replied in much the same fashion emphasizing the banks' contributions to the Middle and Western Provinces. However, he added that there might be some justification for claiming that funds have been drawn off from the Maritime Provinces, these

" dead ends " of the Dominion, to reap the larger profits of the newer and more progressive sections. The third doubted, and he was the only one taking this position, whether branch banking had contributed *directly* to economic progress in Canada. Economic progress, he asserted, would have been quite as pronounced under a unit system and, furthermore, the system of branches had made possible, he declared, a centralization in banking, banking facilities, and business organization, to a greater degree in Canada than elsewhere. The reply of the fourth economist, which was somewhat more comprehensive than the others, follows:

" The branch banking system has decidedly been a contributing factor in the economic development of Canada. In the first place, because of the large amount of capital at the command of the banks, owing to the requirements under the Bank Act; secondly, owing to the fact that the manager of even a small branch can look forward to a professional career of distinction, as the larger opportunities are open to men who have proved their eligibility, and this brings a superior type of man into the banking field; in the third place, because the head office is advised promptly of local opportunities for economic expansion; and in the fourth place, because ample funds are usually available to meet that need and opportunity. Moreover, the large capital makes possible a certain amount of " financial " banking, in which aid has been extended to the promotion of railroads, pulp and paper industries, the fisheries, etc.

" Before the establishment of the Federal Reserve System, in my opinion, it was impossible for the average local bank in the United States to give the same support, or *direction,* to business expansion as was possible in Canada. The local bank was affected by local conditions, and had limited local capital. Under the branch banking system capital can be quickly mobilized and applied to aid communities ' on the frontier of business ' where opportunity as well as needs are often greatest.

" I find that local deposits in the West are exceeded by local loans. I have personally examined bank ledgers, and found instances of loans to farmers for three, four and even six thousand dollars, extending over a period of years. No one can say that this is desirable in the case of commercial banks; but at the same

time I believe it to be a fact that under the Canadian system no such pressure was placed upon farmers to compel liquidation as was experienced in the United States in 1920–1921."

Those qualities (not without their shortcomings) of the Canadian system, which are in fact the tests of any good banking system, and which have had their part in the nation's material advance are:

(1) Reasonableness of charges.
(2) Availability of credit.
(3) Safety.
(4) Control of credit.

REASONABLENESS OF CHARGES

Reasonableness of Charges. It is rather a difficult matter to obtain accurate data regarding the charges exacted for credit advances in Canada. There are no open money markets as in the United States or England. Foreign trade is financed either by way of New York or London and as business men customarily deal with only one bank there are no quoted rates on commercial paper. Facts regarding interest rates have to be gleaned from the proceedings of Parliamentary Committees and from the published reports of special investigators. From these, it would appear that there is a smaller spread between interest rates in the relatively developed and undeveloped sections of Canada than in corresponding sections in the United States. In the large centers, industrial districts and developed parts of Canada, the rates charged range from 5% to 7%, where in the comparatively recently settled sections, the Prairie Provinces, the rates range from 7% to 10% with 8% very commonly charged. Thus Sir John Aird testified that in Manitoba for the "gilt-edged" farmer the rates charged varied from 6% to 8%, with 8% as the prevailing rate for 95% of his bank's loans.[253] Mr. Beaudry Leman, in charge of one of the "French banks," declared that farmers in the East could borrow at from 6% to 7% and that loans in the West were extended at

[253] *Proceedings of the Select Standing Committee on Banking and Currency,* 1923, p. 361.

8% or 9%.[254] Professor McGibbon, in his carefully prepared report on banking conditions in Alberta, stated that current rates of interest on farmers' loans throughout the Province ruled at 8%, 9% and 10%.[255] His data were substantiated by replies received by a Mr. Spencer, a member of the House, to a questionnaire addressed by him to a large number of farmers, which indicated that the average rate ranged from 8% to 9% and that the usual length of agricultural loans was 3½ months, rather a short time for an industry having a turnover of only once a year.[256] In most instances he found the interest to be deducted in advance. Professor McGibbon indicated that this was a practice severely condemned by farmers in Alberta in that they liked to borrow round sums and that their rate of interest was increased through this practice.[257]

Still another point on which the farmers complained quite bitterly, and which we might introduce in this part of the chapter, while we are discussing the general subject of the technique involved in making loans, is the practice of some of the branches in lending funds for a period altogether too short for the purpose of the loan and then of compounding the interest on maturity. Thus a bank might grant a short-time loan due in midsummer which of necessity must be renewed until the harvest.[258] In compounding the interest the farmers feel the banks are guilty of sharp and usurious practices and when complaint is made, the bankers, so it is alleged, retort that farmers and other borrowers " are not forced " to borrow and when doing so must abide by the policy of the bank.

Returning once again to the subject of rates of interest, Mr. H. O. Powell, of the Weyburn Security Bank, whose bank operates only in Saskatchewan, declared that the majority of their loans bore 8% and that even 10% was charged to those who only borrowed and were not extensive depositors.[259] At another point he

[254] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 639.

[255] See p. 13. Mr. Henry T. Ross writes that two of the largest banks have for years charged no more than 8% in the Prairie Provinces.

[256] *House of Commons Debates,* June 18, 1923, pp. 4062–4063.

[257] See pp. 18 and 19.

[258] Professor McGibbon's report, pp. 4 and 22.

[259] *Minutes of Proceedings, Evidence, etc.,* 1913, pp. 424–425. See *Ibid.,*

stated, and with authority, for he had been engaged in banking in the States, that farmers in the Dakotas, directly across the Canadian border would be glad to obtain loans at 12% interest.[260] While the quantity of data available are not as complete as would be desirable, all evidence seems to bear out the view that interest rates are lower in Western Canada than in similar sections of the United States and that the borrower secures his accommodation at a reasonable cost.

REASON FOR LOWER INTEREST RATES IN CANADA. The lower credit charges of the chartered banks, a real factor in the development of the West, arise from the ability of the banks to shift funds rapidly from East to West through the network of branches. A nation-wide mobility of funds is most vital in a country whose chief industries for some time to come will be those associated with the exploitation of natural resources. The farmer requires borrowed money principally over the growing season, and repays his banker in the fall. That money can be used to finance the lumber operator, who equips his camps in the fall and repays his banker later when his cut is driven down the rivers and sawn. The woolen goods manufacturer produces throughout the spring and summer months, but does not obtain the proceeds of his sales until the following winter. His financing dovetails with that of the cotton goods factory owner. The branch system administered by a central office furnishes the delicate mechanism which makes for the greatest economy in the available supply of funds. And the larger the bank (within limits of prudence and assuming the maintenance of an adequate ratio of net worth to liabilities), the more widespread its branches, the truer this is. The Bank of Nova Scotia, representing a conservative and sound institution, with branches in every Province may and can accomplish more for their customers than local banks or even one-Province banks. For if the one-Province banks operate simply in the West, they would not be as able to meet the borrowing needs of the community as would those institutions which shift the excess deposits of their Eastern branches West.[261] Then on

---

p. 542. The rate of discount is fixed usually at the head office, see *Interviews on the Banking and Currency Systems of Canada*, p. 175.

260 *Minutes of Proceedings, Evidence, etc.*, 1913, p. 432.

261 See testimony of Mr. H. C. McLeod, 1913 hearings, p. 119.

the other hand, if the one-Province bank should operate exclusively in the developed and richer Provinces it would, of course, offer a safe depository for savings and could finance local needs but would, necessarily, play a minor rôle in the development of the West.

Then, again, as conditions change in a locality branch banks with nation-wide ramifications may rapidly readjust their policies. For example, in the 1913 hearings,[262] the case of a branch is cited which had been established in a particular locality for the purpose of making loans. After it had been in existence for about four years its loans amounted to $600,000 and its deposits to $150,000. As time went on and as the section became quite prosperous, deposits grew to $600,000, and loans fell to $150,000. In the early years of the life of this branch the community was financed, to an amount equal to four times its deposits by funds shifted from other parts of Canada. As the deposits of this branch increased in time, the head-office was enabled to use these elsewhere in lesser developed regions. In order to make data available on these points it is suggested that the Canadian banks should be required to *publish their deposits and loans by Provinces.*

The Question of Unit Banks. The question of permitting the establishment of small banks was raised in 1913 and again in 1923 and received considerable support. However ineffective or inefficient they are as compared with the branch banks they do have a strong psychological appeal. The borrower may speak directly to the head of the institution, whereas the branch managers must refer any question of moment to the district superintendent or head office. The proponents of unit banking not only emphasized this argument but also its implication, namely, that local banks take a real interest in the local community and become identified with its life more completely than a branch. And some of the proponents of local banks even declared that the large banks were octopus-like creatures sucking the earnings from local communities to speculate with these in Toronto and Mon-

[262] See p. 231. In this same connection it is interesting to note that 40 years ago the Bank of Nova Scotia had to seek an outlet for surplus funds in western grain and produce loans after the navigation season had closed in the Maritime Provinces. When the American banks were small three Canadian banks were important lenders in Chicago.

treal.[263] Some of the representatives in the House from the Maritime Provinces were most outspoken in favor of local banks though not necessarily unit banks. Twenty years ago, one speaker declared there had been fourteen banks with their head offices in those Provinces, the boards of which were composed of men who had lived there, who understood and sympathized with their difficulties and ambitions.[264] To-day not one chartered bank had its chief office in the Maritime Provinces. All large loans must be referred by local managers to the head office, where, a thousand miles away, persons pass on the loans who are unacquainted with the borrowers and even the country itself. Local enterprise is unable to secure sufficient funds and is stifled. But as Mr. Maclean, chairman of the Banking and Commerce Committee of 1923, pointed out, small banks could not compete in service and in reasonableness of charges with the larger institutions. If a small or local bank were assured of success it would have no difficulty in raising the necessary capital in the Maritime Provinces, in Halifax, or St. John. But local banks there could scarcely compete against nation-wide institutions. They could not offer the same rate of interest on savings accounts, since their own earnings would be low owing to the low local demand for loanable funds. The *borrowers* in the Maritime Provinces, it is true, would benefit from the establishment of local banks as their interest rates would be lower than that they would pay a national institution, for in the latter case they compete against borrowers in the undeveloped sections. But even so it would surely not be in the interest of the whole of Canada if interest rates were abnormally low in the Maritime Provinces and abnormally high in the West.[265] Better a leveling-up which would promote the development of the Western Provinces and so the general prosperity of Canada. The decline of the Maritime Provinces can not be ascribed entirely, as the proponents of local banks assert, to the branch banking system. It is due in the main to the better material opportunities in the West. These Provinces have not been able to compete against

263 *House of Commons Debates,* 1913, p. 1928. Speech of Mr. Samuel Sharpe of North Ontario.

264 See speech of Mr. Logan, *House of Commons Debates,* June 19, 1923, pp. 4078–4081.

265 See testimony of Sir Edmund Walker, *Minutes of Proceedings, Evidence, etc.,* 1913, p. 532.

this Western lure, any more than parts of New England have been able to hold their population or industries (even with a unit banking system) against the call of the South and West. A banking system could not by itself and would not, if it could, ruin one particular section. Its decline, if such occurred, would be due to far more fundamental factors. Of course, in developing the West as a competitor and in the fact that rates of interest rule higher in the Maritime Provinces than would be true under a system of local banks, the banking system is in part responsible, but its culpability has consisted simply in the development and strengthening of the entire nation.

The argument that local banks or unit banks are more identified with and give greater support to local business than a branch system is double-edged. Local banks in the grain sections of the United States were so involved with local industry, with the land boom during the war and post-war inflation, all eggs had been so tightly packed in one basket, that these failed by the hundreds and thousands during the depression. In consequence many state banking superintendents are convinced, a feeling which is usually expressed mildly and hesitatingly, of branch banking as a solution. The Canadian branch banks not only can diversify the risk which local banks seem incapable of in heavy borrowing sections, but of even more importance they can and do stand behind their farmer customers. In this connection Sir John Aird declared that his bank had staked the farmers especially in Southern Alberta and Saskatchewan for one, two, three, and four years and had advanced them millions of dollars with the confident expectation that they would "come back." [266]

For a country such as Canada with a population scattered over vast stretches of territory, branch banks with their lessened overhead and costs of operation are par-excellence the best adapted to the needs of the country.[267] This fact was attested to by Mr. H. C. McLeod in 1913,[268] who asserted that the experience with local banks had been disastrous:

The experience of the country with such banks has been rather disastrous, they cannot compete with the branch banking system.

[266] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 361.

[267] *House of Commons Debates,* June 19, 1923, pp. 4078–4081.

[268] *Minutes of Proceedings, Evidence, etc.,* 1913, p. 112.

A branch of a bank will serve a community far better than any local bank can. In your local bank you have local directors, there are jealousies in every community, and borrowers will usually select the branch bank that has come in from outside in preference to going to the local bank, unless, of course, they have personal interests in the local bank. The local bank cannot compete in the matter of profit, and with the way banking is run to-day I do not think the local bank would exist at all.

Unit banks could not so adequately serve the interests of the country nor could they hope to compete successfully with the branch banks, no more indeed than the private bankers in Canada of a generation or more ago. Though only a one-Province bank, the Weyburn Security Bank survives and might seem an exception to our statement. But its shares are held by two or three persons who have to come to the assistance of the institution from time to time. The experience of the General-Manager peculiarly fits him for the territory in which the bank operates, but even so and in spite of a closely affiliated mortgage subsidiary it has had difficulty in earning its dividends.[269]

In concluding the discussion of unit v. branch banks, it might add strength to our argument to quote the opinions of two persons, impartial in their attitude and wholly conversant with the banking situation in Canada. The first is that of Professor Swanson, an economist in the Dominion.[270]

The local independent bank in the United States has done something for the community, because those who have their money in the bank and the directors are local men; but I do not believe that we are going to get the same results in Canada by establishing independent and local banks with small capital; we will only get those results when we have men, bankers, who identify themselves with the local community, who have some knowledge of agricultural conditions, whose main interest is in agriculture, who have a rural point of view as well as a financial point

269 See speech of Mr. Maclean, *House of Commons Debates,* June 19, 1923, pp. 4078–4081.

270 *Proceedings of the Select Standing Committee on Banking and Currency,* 1923, p. 778.

of view, remembering that it is not money that is going to save the West, it is money harnessed to labor power. What we require is to encourage the people who are laboring on the land to-day, and give them again that moral courage, the morale that was so important during the war for our men, and to restore that morale in the West, and you cannot do it with people that are discouraged, that are carrying a burden of debt too serious to support.

The second statement was that made by Mr. J. B. Forgan, who had been engaged in banking in Canada and at the time of the statement was a leading banker in Chicago. He was thoroughly acquainted with branch and unit banking and gave the following reasons for explaining his opposition to the establishment of unit banks in Canada: [271]

1. Because I believe experience in Canada as in England and elsewhere, has shown that small local banks cannot successfully compete where the more economical system of branch banking has been established.
2. Because competition among the large banks with branches affords the legitimate business of all localities better service than can be had from small local institutions.
3. Because small local banks are usually organized and controlled by local borrowing interests which leads to borrowers lending the bank's money to themselves and becoming the judges of the limits of their own credit, than which there is nothing more dangerous in the banking business.
4. Because small local banks, unless they are affiliated with large central banks, are at a disadvantage in the matter of carrying adequate cash reserves against their current liabilities.

Unit banks are not adapted to Canada's needs. She is fortunate in having a type of banking system that adequately serves her interests while on the contrary the United States struggles along with unit banks, unable to finance new sections adequately and apt to become dangerously involved with local life and industries. We do not mean to recommend for the United States the huge super-branch banks of Canada with their hundreds of branches,

[271] *Minutes of Proceedings, Evidence, etc.*, 1913, p. 316. See also pp. 230 and 323.

with their low ratio of net worth and which might have a preference for the loans of large interests to those of small.[272] A golden mean must be struck between those on the one hand and the unit or even the one-Province banks on the other. This golden mean could be realized by allowing national banks with a specified capital and surplus to establish branches throughout the same Federal Reserve district as that in which the head office is located. This would prove of particular benefit to farmers in the Federal Reserve districts of Chicago, Kansas City and St. Louis, which possess a great diversity of economic interests and have ample funds for agricultural development.

272 Regarding this statement Mr. Henry T. Ross wrote: The implication from this, of course, is that if large desirable loans are offering, the small borrower must suffer. In this connection let me quote Sir Frederick Williams-Taylor, General Manager of the Bank of Montreal, at the Annual Meeting of that Bank in December, 1921:

"I should like to take this opportunity of stating that we welcome small accounts at all of our offices."

Three years later, in 1924, he assured the small borrower in the following terms:

"I should like to emphasize that this Bank's services are at the disposal of every class of the population."

In addition, Mr. C. E. Neill, General Manager of The Royal Bank of Canada, in his address to the shareholders on January 10, 1924, stated:

"The funds which Canadian banks have available for agricultural and commercial loans are distributed to the best possible advantage in the general interest. To indicate how widely the loaning funds of this bank are distributed, I may say that we have no less than 65,000 direct borrowers in the Dominion of Canada, and that the average loan is only $4,080."

To show, further, that the statement in the sentence quoted is quite at variance with the facts, I have examined an Inspector's liability report of a large city branch of The Royal Bank of Canada, and there were 425 borrowing accounts for sums under $1,000. I saw one for as low as $26, and there were several scores for sums between that sum and $150. I have also been shown the Inspector's reports of country branches, two of which fairly illustrate several hundred of that Bank's branches in Canada. I give as illustrations:

(a)	Number of borrowing accounts,	200;
	Total loaned,	$122,000;
	Average loan,	$610.
(b)	Number of borrowing accounts,	252;
	Total loaned,	$300,000;
	Average loan,	$1,190.

The former was in a countryside in Saskatchewan; the latter in a village, with farmer customers chiefly, in Nova Scotia.

The Interest Clause of the Bank Act. To revert to our discussion of interest rates in Canada, it will be remembered that interest rates in Western Canada are lower than in similar parts of the United States though higher than in Eastern Canada. This differential, a perfectly natural one, roused the ire of the Western representatives in the House of Commons along with the fact that the banks were charging rates higher than 7% which according to some was a violation of Clause I, Section 91 of the Bank Act. This clause reads as follows:

> The bank may stipulate for, take, reserve or exact any rate of interest or discount not exceeding seven per cent per annum and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the bank.

As several witnesses appearing before the Banking and Commerce Committee pointed out, the Privy Council has ruled that this imposes no restriction on the rate charged, nor does it prohibit the rate from being collected in advance. Its only significance is in preventing a higher rate from being recoverable.[273] In the House of Commons at least two members [274] sought to introduce substitutes which would make effective the provision regarding the stipulated legal rate of interest, the one retaining the 7% rate and the other substituting 8%. Both proposals were negatived and the old clause remained. In his report, Professor McGibbon suggested that the maximum legal rate be fixed at 8% and that the law be made enforceable. It is not sufficient, he explained, to rely on competition alone to keep down rates of interest when it is realized that with branches of five of the chartered banks at Grande Prairie and of three at Peace River Crossing, interest rates continue to rule at 10 per cent. The only protection for the public is regulation. Eight per cent, as a maximum, he felt, would be fair to the banks and borrowers. It might prevent some loans from being made but if a loan is so risky that nothing but a 9% or 10% rate will warrant a bank engaging in such business, then, he concluded, the loans should not be granted. And

[273] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 531 and 971.

[274] Messrs. Shaw and Coate. *House of Commons Debates,* June 19, 1923, pp. 4105 and 4125.

in case the argument is raised that such a rate would deter a bank from entering a district, Professor McGibbon believed that this might not be an unfortunate result. In his Province, 117 branches of the chartered banks had been closed in the past ten years and it might not be undesirable if the banks were to make a more careful survey before establishing branches. The different discussions lead to no constructive action regarding this clause. One banker maintained that if interest rates were reduced to 7%, dividends would have to be cut to 3%, representing a loss of four or five hundred thousand dollars a year.[275] Moreover, he asserted, his institution would have to withdraw from a great many centers. Costs were high and profits so narrow that the branches could not be maintained.

Without exception the bankers who testified lay great emphasis on the higher costs in the West as the justification for the higher rates of interest. Thus Mr. Beaudry Leman, before the 1923 Committee,[276] indicated that salaries and living allowances were considerably higher in the West. Sir Edmund Walker cited the larger losses as justifying higher rates.[277] Mr. Garland, a member of the 1923 Committee, expressed the opinion vigorously that the higher costs resulted from the elaborate, ornate buildings erected by the banks on the Prairies, which saddled the community and shareholders with a heavy burden.[278] Professor Swanson, while not mentioning this argument did substantiate the bankers' statements that they would be forced to withdraw from the West if they were limited to 7% in their interest charges: [279]

In the West, of course, it would be a wonderful thing for the

[275] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, pp. 361–362.

[276] p. 637. See also 1913 hearings, p. 431, and for cost of living in Dawson during the gold rush and justifications for charging 2% a month interest, see 1913 hearings, p. 579. Before the same Committee Mr. Edson L. Pease claimed living costs were 25% greater in the West than in the East. (p. 543). See also p. 282.

[277] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 520. For same reasons mortgage credit was higher in the West, see *Proceedings of Special Committee on Agricultural Conditions,* p. 1135.

[278] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 989. See also p. 399. In *Proceedings of Special Committee on Agricultural Conditions,* see p. 1133.

[279] *Proceedings of the Select Standing Committee on Banking and Com-*

farming community if they could get their money at seven per cent. They are not getting it. They are paying eight, nine, and ten. It would be a wonderful thing, but the point is, what would be the effect, and that is a very good question, your third question. Can the banks afford to do it? What would be the effect on banking in Western Canada? From the computations made by the banks in Western Canada, taking into account the risk of crop failures, of the loss of market, of the collapse of the market, and the like, we know perfectly well that seven per cent under present conditions would not pay the bank. I believe that some banks would withdraw; they would close their branches at various points. There is more to be said for a rate of eight per cent. But I think it is always a dangerous thing to state by law what shall be the price of anything; of the price of money; or even the price of what the farmer has to sell. We know that during the war, the price of what the farmer had to sell, namely, his wheat, was fixed, and undoubtedly the farmer could have got a higher price if the Government had not stepped in and set the price, which was the maximum price to the farmer. We ought to bear that in mind. I believe that when we can get competition among lenders as against competition among borrowers, such as obtains right now, when we can get more competition among lenders we will reduce the interest rate; and that can come only when we have done something else for agriculture; not only gone into this banking business, but gone into the question of the tariff, and of freight rates, and of widening the markets.

Even granting his point as regards the inadvisability of price-fixing, it would have been good psychology for the banks to have acceded to such a proposal as the 8% inforceable clause advocated by Professor McGibbon.[280]

While we are on the subject of bank costs, it may be of interest to insert at this point a table which appeared in Professor McGibbon's report of the profit and loss account of a country branch having the bare minimum of loans and deposits necessary

---

merce, 1923, p. 786. Mr. H. C. McLeod made much the same statement as regards withdrawals in 1913, see p. 168 of the proceedings.

[280] Even so usury laws are difficult of enforcement with the bonuses, commissions of one sort and another and the necessity of maintaining proportionate free balances.

to be on a paying basis. The deposits amounted to $100,000 and the loans to $140,000 and the interesting feature of this statement is that the branch is expected to transmit to the head office an amount equal to 5% per annum of the amount by which loans exceed deposits:

PROFIT AND LOSS ACCOUNT—COUNTRY BRANCH

Having Average Savings Deposits of $50,000 and Average Free Balance of $50,000 in Current Account.

Salaries			Interest derived from loans of $140,000 at 8%	$11,200
Manager	$2,000			
Teller-Act.	1,200			
Ledgerkeeper ...	800		Inland and Foreign Exchange and discount...	700
Junior	500	$4,700[281]		
Stationery		600		
Rent and Insurance......		900		
Taxes (Provincial and Municipal)		275		
Fuel and Light..........		225		
Postage and Express.....		300		
Telegraph and Telephone		100		
Sundries				
Advertising, traveling and relieving expenses, subscriptions, law costs, etc.		300		
Executive supervision....		500		
Annual charge for interest on capital outlay for fixtures, equipment, depreciation, installation and freight............		400		
Paid to Head Office				
5% on $40,000, being amount by which loans exceeded the deposits of the branch............		2,000		
Interest paid on savings deposits at 3%........		1,500		
Profit		100		
		$11,900		$11,900

(It should be observed that in submitting these figures as an illustration covering operating costs, no provision whatever for losses enters into the computation.)

281 The salaries do not total $4,700. This is copied exactly as it appeared in Professor McGibbon's report. It will be noted that no provision has been made for a cash reserve.

Bank Profits. To an American the average interest rates charged by the Canadian banks in the West, though they rule above the rate stipulated in Section 91, do not seem excessive. In a newly settled, rapidly developing territory, interest rates would naturally rule high, so intense the demand for present goods or the present uses of goods and so large the profits involved if circumstances are favorable. If the high interest rates were excessive or extortionate, this would normally be manifested in large profits and high rates of dividends. But as indicated by Mr. H. C. McLeod in 1913, bank profits are not excessive, and if indeed, bank profits were large, the banks would have no difficulty in increasing their capital to the heights demanded by prudence, a real problem facing them at the time.[282] The same opinion was expressed by Sir Edmund Walker, who indicated that few Western offices ever "pay" until the third year, that these initial losses are not usually offset until the branch has been in operation for six or seven years.[283] In fact he presented some statistics which showed that the profits of 100 industrial businesses in Canada were twice as large as those of the 19 chartered banks. In the following table a comparison is presented on a weighted average basis of the per cent of dividends to paid-up capital and surplus of the chartered banks and of national banks in the United States:[284]

Year	Chartered Banks	National Banks
1890	5.65%	6.1%
1895	5.18	5.0
1900	5.01	5.6
1905	4.76	6.1
1910	5.10	6.7
1915	5.20	6.3
1920	5.90	6.7

[282] *Minutes of Proceedings, Evidence, etc.*, 1913, p. 108.
[283] *Ibid.*, p. 522.
[284] *Ibid.*, p. 521. See also p. 554. It has been asserted that the dividends in recent years have been larger than warranted as bank premises have not been written down as quickly as desirable nor have contingent reserves been built up.

With the exception of but one of these years the per cent dividends of national banks exceeded those of the chartered banks, and the average excess in the seven years amounted to .81 per cent. The interest rates in Western Canada, then, have not been the means of swelling the dividends of the banks. They are to be explained on the ground of the higher costs and larger losses. Of course, some assert, and probably with considerable justification, that these higher costs are due to competition between the banks in buildings altogether too fine for the community.

AVAILABILITY OF CREDITS

Another test of a good banking system, i.e., of one serving best the investment, commercial, and consumptive credit needs of a nation, is the availability of credit to those who are "deserving of credit," who have the requisite capital, capacity, and character. Thus a banking system which serves the industrialist to the exclusion of the agriculturist, or which makes it easier for a farmer to secure long-term credit than a city dweller is not efficient or playing the proper rôle in furthering capital needs, production and trade. Does the Canadian system make credit available on equal terms to producers and traders in all parts of the Dominion and does the credit system possess sufficient elasticity to expand and meet seasonal, cyclic and secular fluctuations, the dynamic changes in a nation's economic life? The Canadian system meets the dynamic fluctuations — in so far as these consist of seasonal or secular movements — quite adequately. And now that the banks may borrow from the Government under the Finance Act, the cyclic needs should be fully met. But it is when we speak of the static credit needs of industry, in so far as these may conceivably be separated from the dynamic, that we meet criticisms of the banking system. For example, borrowers in the Maritime Provinces have complained that they have not obtained the amount of credit necessary for their needs. Probably if Canada had a unit-type of banking system, those sections such as the Maritime Provinces which have normally an excess of deposits over loans, would be able to obtain larger amounts of credit at lower rates. But with branches scattered over the Dominion, the

borrowers in these surplus fund areas must compete with those in the "deficit" sections, where profits are larger and economic possibilities greater, so naturally they must pay higher rates. But even granting this, the banking system must not be held accountable for the economic decline of the Maritime Provinces any more than the British banking system could be held accountable for the decline of agriculture in England following the opening up and winning of the West in the United States. People have left the Maritime Provinces for a better living in the West and though interest rates may be slightly higher in the Maritime than they would be if there were a unit-type of banking system, rates are lower in the West, which is of more importance as a factor in Canada's development.

Another point involving this same issue of the availability of credit is that the large banks prefer large loans (which may be granted at a smaller relative cost), which has led to a concentration of industry in the larger centers of Canada. This it is alleged would not have occurred with a unit-type of banking organization. As measured by the value of products, the large manufacturing centers are Montreal, Toronto, Hamilton, Winnipeg, and Vancouver.[285] While industries in the United States are perhaps somewhat more widely scattered, the concentration in Canada (which is not as great as some would allege) is due not to the banking system, but rather to other factors such as accessibility to markets, labor, and raw materials. Each of these cities is on main railway routes and three have the benefits of water transportation. Montreal, the city of greatest manufacturing, is not far from the coal fields of Pennsylvania. Each has an ample supply of cheap labor which does not exist in the West. The momentum of an early start, the accessibility to markets, cheap labor, sources of raw materials, and transportation facilities have been the determining factors in the location of Canadian industry. Banks in this instance (even granting that large banks prefer large loans) have followed economic development rather than initiated it.

Branch Managers. A frequent criticism of the Canadian system which involves again the problem of the availability of credit and a comparison of the branch system with the unit type of

[285] *The Canada Year Book,* 1925, p. 432.

banking, is that branch managers are unsympathetic with local needs, that they are shifted about too frequently, often just as they are becoming acquainted with a particular section, and finally, that they are given little authority and must refer all questions to the head office. Such criticisms would almost invariably arise in a system where, for administrative purposes, authority must be more or less centralized. But as we shall endeavor to point out, these are errors of administration and not defects necessarily inherent in branch banking.

The first charge is that the branch managers, directed by policies formulated at the head office, are unsympathetic with the local needs and in fact withdraw support from a local community should it be in financial distress as, for instance, by reason of a crop failure when assistance is most urgently required. While instances undoubtedly might be cited of a lack of sympathy on the part of branch managers and of withdrawals of support, these are probably exceptional. The policy of the banks is to encourage the managers to take an interest in the community's social and economic life. The officials in the head offices know that any other policy would be suicidal. Where cases of "unsympathetic" managers are investigated, these are in most instances the outcome of the rapid expansion of branches through the West,[286] the necessity of training bankers quickly and of shifting managers about from places of lesser to those of greater importance. The expansion of banking offices in the West has been so rapid that problems of personnel could not have been properly met by any system. During the past several years when the banks have been reefing their sails, the personnel problem is no longer acute, and managers consequently remain long enough in one place to know and fully appreciate its needs. Not that a manager should remain permanently fixed, for that would be but to narrow his point of view and dampen his ambition. Some shifting is essential to promote the managers as their ability is demonstrated and to give them a truly national point of view. It is a really serious defect in the country banker in the United States that he possesses a strictly local point of view, unappreciative of national economic problems, and is really less able to advise his patrons than one who

[286] Incidentally an advantage not possessed by unit banks where considerable time is required for their establishment.

has served in the grain, lumber, fishing, and manufacturing sections of a nation and is thus able to correlate his patrons' needs and business with those of the whole country. A questionnaire was sent Canadian economists regarding this point and the consensus of opinion was that it is the policy of the bank to fully meet local needs, understand local conditions, and where this is not the case, it is due to defects of administration or the exigencies of a situation. The same thought was expressed in the bankers' testimony given in the 1923 hearings. Mr. Beaudry Leman asserted that a manager of a Western branch would be expected to know Western conditions and to serve as teller, accountant, and assistant manager before rising to the post of managership. It would be unusual to send a clerk from the East to assume charge of a Western office.[287]

To summarize, some of this "managerial" criticism grew out of the rapid expansion of the banks in the West and the personnel problems arising from the war. These as causes no longer exist. But included in Professor McGibbon's report [288] are certain criticisms which do not arise from temporary causes. One is that in instances where a branch manager has become too "liberal" in the granting of credits, he is shifted and the one who takes his place is instructed to "clean up" the district, a remedy which is disastrous for many borrowers misled, perhaps, by the too liberal policies of the previous manager. Another point is that little effort is made by the banks to fulfill the promises made by one manager to his clients when another takes his place. Thus a farmer may have been promised credit but, due to a change in management, he finds it is not forthcoming, leaving him to feel that the bank has broken faith. Professor McGibbon's careful study merits quoting on these various points, though their solution is by no means an easy one:

"There have been an extraordinary number of changes of managers in the branches of the chartered banks of this province in the last few years. According to information supplied me by the banks there are at the present date (August 10, 1922) three hundred and sixty-five branches in Alberta, five of which are sub-

[287] *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 633. See Sir John Aird's testimony, p. 393.

[288] See pp. 29–31.

branches. Of the three hundred and sixty branch managers handling the business, sixty-two have been appointed to their present posts within the present year (1922). Seventy-nine were appointed in 1921, eighty-seven in 1920, sixty-four in 1919 and twenty-three in 1918. If we neglect 1918, over eighty per cent of the Alberta branch managers were post-war appointments. If we omit the figures for 1919 as adjustments particularly due to the war and consider only 1920, 1921, and part of the present year, two hundred and twenty-eight appointments or sixty-three per cent have been made within this period — of the total number of branch managers in Alberta, eighty-five or twenty-three per cent, and are in their first managerial position. The great bulk of these changes have taken place during the years of depression. It is clear that the farmer's feeling that the rate of managerial turnover is extremely high is fully warranted by the facts.

" The loss of personnel during the war has undoubtedly accelerated promotions, and each change usually causes others. Another cause of change has been the opening up of new branches in the West. In the five years between 1916 and 1921 over two hundred new branches were established in this Province, the majority of these in 1919. During the same period over fifty branches were closed. In 1919 it was stated that the banks had opened something like nine hundred new branches in the Western Provinces in a period of comparatively few years, 'which means nine hundred green managers to be tested — in some cases weeded out — and carefully trained. And it takes nearly as many years to make a good bank manager as it does to make a good farmer.' [289]

" Considerable evidence was presented to show that misunderstandings were frequently connected with a change in branch managers. It is quite obvious, I think, that dissatisfaction, arising from these misunderstandings, is increased when the change coincides with a period of depression. The new man is identified with the more careful policy of loaning that the change of conditions demands. The bank and its new managerial representative appear to be forcing credit restrictions on the community instead of changed conditions forcing a change of policy

[289] Mr. Vere Brown, of the Bank of Commerce.

upon the bank. Morever, I believe, there is a genuine loss in banking efficiency as well. A sound banker who knows a district of twelve or of fifteen hundred square miles is surely in a better position for a considerable time to carry on business than an equally sound banker who enters upon the field a stranger.[290] In so far as excessive changes in managers have arisen out of conditions that the banks themselves could not control — loss of personnel in the war and the exceptionally rapid expansion of the Western banking field — those causes have passed, and we may expect improvement.

". . . My impressions are that branch bank managers are being changed oftener than in the long run is good business. Moreover, I am inclined to think that the rapid expansion of the banks in western Canada has led to the appointment of a certain number of inefficient managers. For a while the results of such an appointment do not appear but ultimately the man is removed and the district lulled by easy credit into bad financial habits, endures a drastic clean-up with great irritation and in a certain number of cases with real hardship.

" Secondly, I think the banks are pushing the idea of changing managers to give young bankers varied experience to too great an extent. It should be possible largely to secure this varied experience before the status of manager is achieved. The effect upon the young bank manager tends to be bad. It leads him to take less interest in the permanent development of his district along sound lines, even though it may give him facility in the more mechanical aspects of estimating what is sound loan. He is part of a procession. As such there is a loss of efficiency during the period he is becoming acquainted with his district. Moreover, with his eye on the next post, he sometimes, I fancy, fails to know it at all. When his efficiency should be at its highest point he moves on and the experience has to be repeated. I consider it only too likely that the peripatetic country branch bank manager will have ultimately only a ready facility in rule-of-thumb banking. He will lack the higher kind of skill and sense of public service that in some countries have made country bankers the architects of their nation's progress.

[290] The new branch manager may be greatly aided by adequate credit files.

"In the third place, if a bond of confidence that should exist between a banker and his client has been formed, it is broken and must be re-created. This necessarily takes time. Reading the record of a client's transactions with the branch may give a new manager some clue to the nature of his customer, but it is a poor substitute for personal knowledge. Moreover, the bond to be true and of value to each must be reciprocal. The customer has not the advantage of a study of the new manager's record. In uncertainty and doubt he must wait and learn by experience. When farmers think that young city bankers sent to be managers at rural points in order to gain experience look upon farmers as 'animals that have to be put into a corral at night and fed oat sheaves,' it takes time to remove such impressions. Moreover, with regard to complaints that verbal promises made by one bank manager have failed to be honored by the next, it is certainly true that changes lead to misunderstandings. This embitters the client of the bank who does not realize that the verbal promises of a branch banker afford him no certainty in a pinch."

Powers of Branch Managers. Still another complaint lodged against the administrative policy of the banks, which really has a twofold aspect mutually inconsistent, is that the branch manager possesses little discretionary power and on the other hand that he acts the czar in his locality.

Regarding the first point, the banks are now and have for some time followed a policy of decentralizing their operations as much as possible. Thus the Canadian Bank of Commerce has divided the country into several districts, Newfoundland (of course not a part of Canada), the Maritime Provinces, Quebec, Ontario, Alberta, British Columbia, and finally Manitoba and Saskatchewan which are each under one jurisdiction. In each of these divisions there is a Superintendent with power to pass on loans (in the case of Manitoba and Alberta) up to $75,000. For larger amounts the General Manager must be consulted, but his decision may be known in from 24 to 48 hours. The discretionary power of local managers would vary perhaps from $1,000 to $15,000 depending on his experience, ability and general importance of the branch. Then, too, a greater degree of decentralization and a better knowledge of local conditions is secured by the practice of

appointing local advisory boards.[291] With this system properly administered and with a proper selection of personnel, according to Professor Swanson, the branches should have that intimacy of knowledge and contact possessed by unit banks in the United States and with infinitely greater ability to assist their clients.[292]

Regarding the second part of this complaint that the managers act the czar, Professor McGibbon makes the point that they are really the courts of first and last resort. For they possess unqualified power in rejecting loans and the borrowers can not appeal to a higher authority,[293] and especially is this important in districts, some as large as 1800 square miles, where there is no competition. Little local money is available and if a borrower is refused, he is really "up against it." Furthermore, being the dispenser of credit, the manager may influence farming methods against the better judgment of the farmers themselves, might require them to engage in stock raising, and to diversify their crops, and the farmers, dependent on his good graces, would be afraid to cross his will even when the managers as in 1918 and 1919 "loaded" him with credit. These criticisms can be directed against any banking system, branch or unit, and really in the last analysis come down again to questions of personnel and administration which are capable of solution. To curb the czar-like proclivities of branch managers, Professor McGibbon suggests that a credit commissioner be appointed, before whom the farmers might lay their complaints, and who could report to the Provincial legislatures and banks. Another suggestion, made by Mr. Brown of the Bank of Commerce in his address to the United Farmers at Edmonton in 1919, was that local committees be appointed before whom farmers could lay their complaints and who would submit their reports to the banks: [294]

"But I can offer you a suggestion as to how the difficulty can be met. Supposing, when you go back to your homes, you appoint in your association a local Committee of Reference, so that

[291] *Proceedings of the Select Standing Committee on Banking and Currency,* 1923, pp. 392 and 451.
[292] *Ibid.,* pp. 795–796.
[293] Report, pp. 44–46.
[294] Quoted in Professor McGibbon's report, p. 47.

complaints of farmers in your own district might be put before it? Then if a complaint were made against a bank, that committee could sit down with the bank manager, sort out the statement of facts on both sides, and decide whether the bank was at fault. If the bank was found at fault and the manager was disinclined to recognize it, the local committee could pass their findings on to the Central Committee at Winnipeg, by whom the matter could be taken up with the chief representative of the bank there.

"Now, if as a result of such procedure, it were found that any one bank was not fulfilling its duty toward the farmers, the remedy would lie in your hands. On the other hand, if the fault was the fault of a local manager, here and there, no one would be more anxious to know it than his head office. And with a local committee in the country and a central committee in Winnipeg, or Calgary, or Regina, we might hope to get somewhere."

By way of summary, if the personnel can be and is carefully selected and if administrative policies are such as to decentralize authority and delegate it to local managers, local advisory boards and district superintendents, the managers and their banks can take as much interest and be as cognizant of local needs as unit banks. Above all, they can extend larger amounts of credit, at lower rates, and stand behind their customers in a way impossible for local banks.

Rural Credits. During the past few years there has been considerable discussion in Canada on the subject of long-term agricultural credits. The feeling is that the chartered banks adequately finance the seasonal or temporary needs of the farmers but that the same can not be said as to the availability of long-term or intermediate credit. As Professor Swanson testifies, the chartered banks have been most liberal, but they can not, and as commercial banks, should not give the type of credit so urgently needed in the West.[295] The type of credit urgently needed is that supplied by the Federal Land Banks and the Federal Intermediate Credit Banks in the United States. The Canadian farmer has

295 *Proceedings of the Select Standing Committee on Banking and Commerce,* 1923, p. 801. As stated by Sir Frederick Williams-Taylor, in recent years, some of the loans have through renewals run as long as five years, but this was quite exceptional. *Ibid.,* p. 340.

been securing his mortgage credit from loan or insurance companies or in some Provinces from provincial mortgage banks but either the amounts have been inadequate, or the interest rates high or the duration altogether too short. Everyone who has studied the subject realizes that Governmental mortgage banks are desperately needed. Through a federal farm loan bank the farmers might secure adequate investment credit, amortized over a long period of years and at low rates of interest. Secured by farm mortgages the bonds would offer a most attractive investment and the farmers would have access to the investment money markets. A plan for such an institution was recommended by Dr. H. M. Tory, President of the University of Alberta, who had been selected by the then Acting Minister of Finance to investigate land banks abroad and the need for these in Canada. His recommendations were to the effect that the Dominion Government should raise funds through bond issues which would then be loaned to those Provinces in which provincial machinery for the making of mortgage loans existed and through which the monies in turn could be loaned the farmers. A bill (No. 237) embodying his plan was introduced in the House of Commons in June, 1925, but failed of passage in the Senate. A much more elaborate measure (No. 148) creating a Canadian Farm Loan Board, with powers and responsibilities quite similar to those possessed by the Federal Farm Loan Board in the United States, was introduced a year later and passed the House of Commons on June 1, 1926, but failed of final enactment. The absence of any such system is a real defect in the Canadian banking structure, in the availability of credit.[296]

The Question of a Monopoly. Bearing further on the availability of credit, is the question of a banking monopoly in Can-

[296] For a further discussion read Professor McGibbon's report, pp. 43–44; Professor Swanson's testimony before the *Special Committee on Agricultural Conditions*, 1923, pp. 1459–1460; also pp. XXII–XXIII; Report of the Special Committee on Agricultural, Industrial and Trade Development, The Senate of Canada, 17; Report on Agricultural Credit by H. M. Tory, Printed by Order of Parliament, 1924, also Supplementary Report, 1926; Professor W. T. Jackman, Report of Committee on Rural Credits, Ontario Department of Agriculture; and Agricultural Loans, a pamphlet issued by Department of the Interior, Ottawa. *Evidence of Witnesses on Bill 148*, Select Standing Committee on Banking and Commerce, The Senate of Canada, Session of 1926.

ada. The existence of this is frequently asserted and good folks are supposed to shudder without having much idea what is meant. A monopoly might manifest itself in extortionate interest rates, in discriminating between borrowers of equally good credit standing and in favoring one interest instead of the other. Those who make this charge, as is typical of like-minded persons in the United States, do not often indicate concisely or exactly why they feel this to be true. Of course, some say that the fact that a uniform rate of interest, 3%, is paid by all banks (except the Weyburn Security Bank) on time deposits is proof positive. But uniformity need not be an indication of a monopoly. If this were so, then the clearing house banks in New York City constitute a monopoly as many of their practices are made uniform through clearing-house agreement. Others allege that the uniformity of interest rates through a particular district is indicative of a monopoly. Yet this is not necessarily true for in a highly competitive market such as in wheat, there is only one price at a given time. And further, this argument fails when we remember that interest rates in Western Canada, where most of the monopoly proponents live, are lower than in similar parts of the United States. Or again people allege that the difficulties in the way of forming a new bank are almost insuperable if The Bankers' Association be opposed but on the other hand the bankers helped in the organization of the Weyburn Security Bank and did not oppose in any formal way the organization of the Bank of Vancouver though they felt it to be ill-fated.

Professor McGibbon reported[297] that in his opinion there is a monopoly, if we define monopoly as an organization with a substantial control over price, which was evidenced by the sudden change in the practice of the banks in the West from making straight loans to farmers to discounting their notes thereby increasing their interest charges. The possible existence of a monopoly was a question much discussed before the House Banking and Commerce Committee in 1923. Professor Swanson expressed the thought that competition did exist which took the form of competition in service rather than in charges.[298] Mr. H. O. Powell

[297] See p. 21.

[298] *Proceedings of the Select Standing Committee on Banking and Commerce*, 1923, pp. 797 and 807.

of the Weyburn Security Bank declared competition was keener in Canada than in the United States.[299]

In reply to a letter addressed by the writer to a group of Canadian economists whose opinions ought to be entirely objective, respecting the existence of a money trust, the following six replies were received. Only two of these state quite definitely that there is a monopoly. A third states that if there is, it is of the loosest sort. These are quoted in full for their value in throwing light on this much-mooted point:

Source A.: The criticism that the Canadian banks constitute a banking monopoly is well founded. They all pay the same rate of interest on deposits and charge the same rate on loans. The loaning provisions are virtually identical. Moreover, if a new bank were seeking incorporation, The Canadian Bankers' Association reports upon the fitness of the incorporators to undertake the work of a bank and if their report to the Minister of Finance is not favorable the charter will be refused. Is not this monopoly?

Source B.: We hear a lot in certain quarters about a "money trust." I do not deny the possibility of such a development but with the keenest competition between the chartered banks, it seems to me there is no practical danger of it.

Source C: I think that this criticism (that the Canadian Banks do constitute a monopoly) is well founded. Through The Canadian Bankers' Association the Canadian Banks are, in many respects, one bank. In a great many respects uniformity is insisted upon and a bank that protests had better look out. It is almost inconceivable that any capitalists would seek a charter for a new bank and yet on the face of it there is nothing to prevent them.

Source D: There is no monopoly. Any group of reasonable men — and no others should be considered, can obtain a charter on providing $250,000 in cash, and meeting the provisions of the Bank Act. I have only to refer to the unhappy experience of the defunct Farmers Bank to make it clear that the stringent scrutiny of any application of a group of men for a charter is justified. On the other hand, among the banks themselves there is the keen-

[299] *Ibid.*, p. 414.

est kind of competition, except in the item of interest paid on time deposits — which is determined by agreement at 3%. But when the Trust Companies provide checking accounts on which 4% is paid, so that there is no great hardship here; although some may say that such an agreement among the banks themselves to pay no more than 3% on time deposits may savour of monopoly.

Source E: I do not believe that there is a banking monopoly in Canada. Of course there is considerable concentration of banking power. We have only 17 banks at the present time;[300] five of these have 75% and seven 85% of the total banking assets of the country. It is true also that under our Bank Act The Canadian Bankers' Association exercises important powers, that there is very close touch between the leading Canadian bankers, and that there is a common bankers' opinion in this country. It is true also that the rate paid on deposits is the same and that all through there are very slight differences in charges for services made by the banks. The competition shows itself in a competition of service, however. As already hinted, the spreading branches might be regarded as an instance of excessive competition.

We have a free banking system and any new bank may be started in this country at any time, provided that the minimum capital can be raised, and that the backers of the project can satisfy the Committee of the House in regard to their honesty, competency and financial backing. It is true, however, that the most recent project for a Canadian bank, the Great West Bank, has fallen through. I think, myself, that the personality of the promoters had a good deal to do with this. One might also admit that a new bank would find it somewhat difficult to develop new business, especially in the first few years of its existence because the service rendered by the other banks is, on the whole, efficient.

Source F: There is some foundation, I think, for the criticism that the Canadian banks constitute a banking monopoly, but it is a monopoly of the loosest sort, involving at most, I think, certain bank agreements as to practices. Between the local branch managers there is a very keen competition. There is also very keen competition with regard to the locating of branches.

[300] In 1922.

If there be a monopoly in banking in Canada it does not seem to rebound to the pecuniary advantage of the banks. Interest charges, all things considered, are reasonable and dividends paid are lower than those of the National Banks in the United States. Its effect, if such exists, on the price of credit (excepting Professor McGibbon's example) is negligible. As regards the uniformity of rules respecting interest paid on deposits, etc., these are to be found over the entire world and, if indicative of monopoly, then such exists in banking everywhere, in New York City as in Canada. This agreement or arrangement is for the protection of the banks and the 3% rate is probably all that they can afford to pay at the present time. It is true that the attitude of the bankers toward legislation has been more or less shaped by the larger banks in The Bankers' Association but if this be a sign of a monopoly, it is true in bankers' associations everywhere and is not peculiar to Canada alone. There is undoubted competition in getting business, establishing branches and in securing deposits through better service and convenience of location.[301]

SAFETY

In the previous sections we have looked upon the Canadian banking system from the point of view of the borrower, from the point of view of the availability of credit to the business man or farmer. On the whole we found that the branch type of banking system in Canada meets the needs of most economic classes in the community satisfactorily, better in fact than a unit independent type of banking system could. Now we plan to shift our emphasis and view the Canadian system from the point of view of the safety of the depositors which is another of our tests of the excellence of any banking structure.

From a statistical point of view, bank failures as the measure of the safety of a banking system present many difficulties. In addition to the lack of adequate data, particularly as regards the results of receivership, the first and immediate prob-

[301] For further statements on this problem see 1913 hearings, p. 204; Debates of House of Commons, 1913, pp. 1877, 1928, 10672–10673, 2422; J. F. Johnson, *The Canadian Banking System,* p. 86; 1923 hearings, p. 948 and 915; and Debates of House of Commons, 1923, p. 4047.

lem encountered is the definition to be given a failure. Of course there are cases which admit of no doubt such as the Home Bank episode which represented the case of an institution closing with heavy losses to the depositors. But in addition to such a clear-cut case there are many of a border-line variety. For example, would one consider a bank to have failed if the shareholders lost all their investment even if the institution were reorganized overnight or merged with another bank with no loss to the depositors? Certainly from the point of view of the stockholders, the bank has " failed " though the depositors' funds be intact. Finally if we wish to make international comparisons, the many variations and imperfections in the raw data make these most difficult if not altogether useless.

The table shown on pages 480 and 481, kindly prepared by Mr. H. T. Ross, Secretary of The Canadian Bankers' Association, purports to give the statistics of bank failures in Canada since confederation. There are listed in all 26 liquidations. With the exception of two the note holders were paid in full and in the case of 13 of the banks, or one half, the depositors were paid in full and, in the case of two, received more than 96 cents on the dollar. The payments to depositors in the other cases ranged from nothing to 75¼%.[302]

Failures in Canada have for the most part resulted from mismanagement and dishonesty on the part of officials at the head offices and have not been due to mismanagement or dishonesty on the part of branch managers. The internal inspection or audit system of the banks, as Sir Thomas White, at one time Minister of Finance, pointed out in 1913, has worked fairly well. The fraud and dishonesty which have wrecked the banks have generally taken place at the head office which has been concealed from the inspectors and honest officers of the banks.[303] This point of view was also substantiated by Mr. George Edwards, in the 1924 hearings,[304] that in the main bank failures in Canada were due to causes which could be ascertainable by an examination of the head office accounts. Head office loans

[302] Mr. Ross' table, with some variations, is similar to one appearing in the 1913 hearings, p. 633.

[303] *House of Commons Debates,* Vol. CVII, p. 1847.

[304] See p. 24.

RETURN SHOWING THE NUMBER OF CHARTERED BANKS THAT HAVE GONE INTO LIQUIDATION SINCE 1867

Name of Bank & Chief Office	*Date of Charter*	*Date of Suspension*	*Number of Branches at date of Suspension*	*Capital Stock at Date of Suspension*			*Reserve Fund*
				Authorized $	*Subscribed* $	*Paid up* $	$
1. Commercial Bank of N. B., St. John, N. B.	Incorp'd 1834 in N. B.	1868		....	600,000	600,000	......
2. Bank of Acadia, Liverpool, N. S.	June 14, 1872	April, 1873		....	500,000	100,000	......
3. Metropolitan Bank of Montreal	Apr. 14, 1871	Oct. 1876		1,000,000	1,000,000	800,170	......
4. Mechanics' Bank of Montreal	Before Confederation	May, 1879		1,000,000	243,374	194,794	......
5. Bank of Liverpool, Liverpool, N. S.	Apr. 14, 1871	Oct. 1879		500,000	500,000	370,548	......
6. Consolidated Bank of Canada, City Bk. & Royal Can'n. amal. 1879	Sept. 18, 1875	Aug. 1879		2,400,000	2,091,900	2,080,920	......
7. Stadacona Bank, Quebec	June 14, 1872	July, 1879[1]		1,000,000	1,000,000	991,890	......
8. Bk. of Prince Edward Island, Charlottetown, P. E. I.	Local	Nov. 28, 1881		....	....	120,000	45,000
9. Exchange Bank of Canada, Montreal	Apr. 14, 1871	Sept. 1883		500,000	500,000	500,000	300,000
10. Maritime Bk. of Dom. of Can., St. John, N. B.	June 14, 1872	Mar. 1887		2,000,000	321,900	321,900	60,000
11. Pictou Bank, Pictou, N. S.	May 23, 1873	Sept. 1887[1]		500,000	500,000	200,000	Nil.
12. Bank of London in Canada, London, Ont.	May 25, 1883	Aug. 1887[1]		1,000,000	1,000,000	241,101	50,000
13. Central Bank of Canada, Toronto, Ont.	May 25, 1883	Nov. 1887		1,000,000	500,000	500,000	45,000
14. Federal Bank, Toronto, Ont. (Changed from "Superior Bk.")	May 26, 1874	Jan. 1888[1]		1,250,000	1,250,000	1,250,000	150,000
15. Commercial Bank of Manitoba, Winnipeg, Man.	Apr. 19, 1884	June 30, 1893		2,000,000	740,700	552,650	50,000
16. Banque du Peuple, Montreal	June 27, 1844	July 15, 1895		1,200,000	1,200,000	1,200,000	600,000
17. Banque Ville Marie, Montreal	Nov. 1872	July 25, 1899		500,000	500,000	479,620	10,000
18. Bank of Yarmouth, Yarmouth, N. S.	Apr. 15, 1859	Mar. 6, 1905		300,000	300,000	300,000	35,000
19. Ontario Bank, Toronto	May 27, 1857	Oct. 13, 1906	29	1,500,000	1,500,000	1,500,000	700,000
20. Sovereign Bank of Canada, Toronto	May 23, 1901	Jan. 18, 1908	88	3,000,000	3,000,000	3,000,000	Nil.
21. Banque de St. Jean, St. Johns, Que.	May 3, 1873	Apr. 28, 1908	1	1,000,000	500,000	316,386	10,000
22. Banque de St. Hyacinthe, St. Hyacinthe, Que.	May 23, 1873	June 24, 1908	1	1,000,000	504,600	331,235	75,000
23. St. Stephens Bank, St. Stephens, N. B.	About 1836	Mar. 10, 1910	1	200,000	200,000	200,000	55,000
24. Farmers' Bank, Toronto	Nov. 1, 1906[3]	Dec. 19, 1910	31	1,000,000	584,500	567,579	Nil.
25. Bk. of Vancouver, Vancouver	Mar. 1910	Dec. 1914	11	2,000,000	587,400	445,188	Nil.
26. Home Bank of Canada, Toronto	Jan. 2, 1906	Aug. 17, 1923	63[4]	5,000,000	2,000,000	1,960,591	550,000

RETURN SHOWING THE NUMBER OF CHARTERED BANKS THAT HAVE GONE INTO LIQUIDATION SINCE 1867

Name of Bank & Chief Office	Rate of Dividend %	Circulation $	Deposits $	Liabilities at date of Suspension $	Assets as per returns at date of Suspension $	Amount Paid to Note holders %	Amount Paid to Depositors %
1. Commercial Bank of N. B., St. John, N. B.	..	....	304,368	671,420	1,222,454	100	100
2. Bank of Acadia, Liverpool, N. S.	..	....	17,959	106,914	213,346	[2]	......
3. Metropolitan Bank of Montreal	..	40,447	129,731	293,379	779,225	100	100
4. Mechanics' Bank of Montreal	..	168,132	253,546	547,238	721,155	57½	57½
5. Bank of Liverpool, Liverpool, N. S.	..	3,668	86,263	136,480	207,877	100	$96\frac{6}{17}$
6. Consolidated Bank of Canada, City Bk. & Royal Can'n. amal. 1879	..	423,819	1,013,934	1,794,249	3,077,202	100	100
7. Stadacona Bank, Quebec	..	152,481	188,372	341,500	1,355,675	100	100
8. Bk of Prince Edward Island, Charlottetown, P. E. I.	..	264,000	463,000	1,108,000	953,244	59½	59½
9. Exchange Bank of Canada, Montreal	8	467,385	2,206,377	2,868,884	3,779,493	100	$66\frac{3}{5}$
10. Maritime Bk. of Dom. of Can., St. John, N. B.	6	314,288	1,091,570	1,409,482	1,825,993	100	$10\frac{2}{5}$
11. Pictou Bank, Pictou, N. S.	Nil.	49,571	17,474	74,364	277,017	100	100
12. Bank of London in Canada, London, Ont.	7	209,045	680,954	1,031,280	1,310,675	100	100
13. Central Bank of Canada, Toronto, Ont.	6	492,855	2,125,040	2,631,378	3,231,518	100	$99\frac{2}{3}$
14. Federal Bank, Toronto, Ont. (Changed from "Superior Bk.")	Nil. 6	670,492	1,005,446	3,449,499	4,869,113	100	100
15. Commercial Bank of Manitoba, Winnipeg, Man.	6	396,890	771,456	1,341,251	1,951,151	100	100
16. Banque du Peuple, Montreal	7	818,648	6,874,217	7,761,209	9,533,537	100	75¼
17. Banque Ville Marie, Montreal	6	261,870	1,504,665	1,766,841	2,267,516	100	17½
18. Bank of Yarmouth, Yarmouth, N. S.	5	50,409	276,505	388,660	723,660	100	100
19. Ontario Bank, Toronto	7	1,351,402	12,656,034	15,272,271	15,920,307	100	100
20. Sovereign Bank of Canada, Toronto	6	1,988,585	11,215,506	16,174,408	19,218,746	100	100
21. Banque de St. Jean, St. Johns, Que.	4	219,334	340,004	560,781	326,118	100	30.271
22. Banque de St. Hyacinthe, St. Hyacinthe, Que.	6	253,860	918,770	1,172,630	1,576,443	100	100
23. St. Stephens Bank, St. Stephens, N. B.	6	149,935	386,160	549,830	818,271	100	100
24. Farmers' Bank, Toronto	4	429,470	1,314,016	1,997,041	2,616,683	100	Nil.
25. Bk. of Vancouver, Vancouver	Nil.	254,762	555,352	912,137	1,532,786	100	Nil.
26. Home Bank of Canada, Toronto	7	1,724,165	15,236,000	18,486,978	Nominally in excess of liabilities	100	25% interim, Dec. 22, 1923 and 35% to depositors of less than $500, Sept., 1925.

[1] Voluntary.
[2] This bank was only in existence three months and twenty-six days. It re-opened for a few days and redeemed a few thousands of its notes. This only lasted a day or two, and the remaining noteholders with the exception of the Government got nothing. The Dominion Government received 25 cents on the dollar on several thousand dollars worth of notes which it held. [3] Date of Treasury Board Certificate. [4] Plus 15 sub-agencies.
N. B. No Bank that has failed since 1895 has paid anything to shareholders. There is no reliable information as to earlier dates.

were cited by Mr. J. C. Saunders also as the chief reason for bank failures.[305] If this point of view be correct, that the head offices are responsible for the majority of bank failures, then the present system of shareholders' audits and of Government inspection should cut down if not eliminate bank failures in Canada. In addition to this present greater degree of supervision, it must also be remembered that the provisions regarding the organization and incorporation of banks have been strengthened and that many of the banks which failed in the past could not be incorporated under the present act.

Double Liability. Canadian bank stock, as does the stock of National Banks and of banks organized in most states, bears double liability. While the banks would probably like to see this feature eliminated,[306] for they feel it is a deterrent to the sale of their stock, it has been of real protection to the depositors as the following table indicates: [307]

Name of Bank	Amount of Subscribed Capital	Amount Collected from Double Liability
Banque de St. Jean	$ 500,000	$ 161,000
Banque de St. Hyacinthe	504,000	156,000
Farmers Bank	584,000	314,000
		(To March 12, 1924)
Bank of Vancouver	587,000	149,000
		(To April 13, 1923)
The Ontario Bank	1,500,000	1,202,510
Bank of Yarmouth	300,000	264,667

Unfortunately these seem to be the only figures made public respecting the effectiveness of the double liability. In passing it might be suggested as a possible reform that the curators and liquidators of Canadian banks should make periodic, full and detailed reports respecting the results of the receivership which should be made public.

It is frequently alleged at bankers' conventions in the United

[305] *Proceedings of the Select Standing Committee on Banking and Commerce*, 1924, p. 363.

[306] See testimony of Mr. C. E. Neill, *Proceedings of the Select Standing Committee on Banking and Commerce*, 1924, pp. 257–258.

[307] *Ibid.*, p. 307. See also 1913 hearings, p. 222.

States that bank failures in Canada have been more frequent and have involved larger liabilities than those in the United States. Since such statements are frequently and loosely thrown about, an attempt is made in the following table to compare bank failures in Canada and the United States on the basis of the per capita liabilities of failed banks in each country. The table clearly shows that the liabilities involved have been proportion-

	BANK FAILURES IN THE UNITED STATES				FAILURES OF CHARTERED BANKS IN CANADA			
Year	Number	Total Liabilities	Population of U.S.A.	Liabilities per Capita (in Dollars)	Number	Liabilities	Population of Canada	Liabilities per Capita (in Dollars)
1900	59	35,617,563	75,994,575 *	.4687	0	....	5,322,000	.....
1	74	18,018,774	77,747,402	.2318	0	....	5,371,315 *	.....
2	63	10,969,072	79,365,396	.1382	0	....	5,532,000	.....
3	121	29,685,766	80,983,390	.3666	0	....	5,673,000	.....
4	99	28,158,811	82,601,384	.3409	0	....	5,825,000	.....
5	78	20,227,155	84,219,378	.2402	1	388,660	5,992,000	.0648
6	58	18,805,380	85,837,372	.2191	1	15,272,271	6,171,000	2.4748
7	132	233,325,972	87,445,366	2.6682	0	....	6,302,000	.....
8	180	123,126,956	89,073,360	1.3823	2	16,735,189	6,491,000	2.5782
9	80	24,677,128	90,691,354	.2713	0	....	6,695,000	.....
1910	119	41,097,255	91,972,266 *	.4468	2	2,546,871	6,917,000	.3682
1	107	25,511,606	93,682,189	.2723	0	....	7,206,643 *	.....
2	79	24,219,522	95,097,298	.2547	0	....	7,365,205	.....
3	120	31,546,314	96,512,407	.3269	0	....	7,527,208	.....
4	212	56,005,107	97,927,516	.5719	1	912,137	7,692,832	.1185
5	133	37,223,234	99,342,625	.3747	0	....	7,862,078	.....
6	50	10,396,779	100,757,735	.1032	0	....	8,035,584	.....
7	42	18,451,964	102,172,845	.1806	0	....	8,180,160	.....
8	20	5,131,887	103,587,955	.0495	0	....	8,328,382	.....
9	50	16,520,862	105,003,065	.1573	0	....	8,478,546	.....
1920	119	50,708,300	106,421,621 *	.4770	0	....	8,631,495	.....
1	404	173,027,776	108,444,777	1.6000	0	....	8,788,483 *	.....
2	277	77,735,551	109,893,003	.7070	0	....	8,940,150	.....
3	578	203,739,138	111,693,474	1.8200	1	18,486,978	9,082,840	2.0353
4	613	202,926,206	113,727,432	1.7900	0	....	9,226,740	.....
5	464	164,698,510	115,378,094	1.4300	0	....	....	.....
6	608	212,074,999	117,135,817	1.8100	0	....	....	.....
Arithmetic mean of per capita liabilities — 27 years:				.6925	Arithmetic mean of per capita liabilities — 27 years:			.2829

Source: Failures in the United States, *Dun's Review.*
Failures in Canada, Secretary, The Canadian Bankers' Association.
Population of the United States, *Statistical Abstract of the United States* (1925, p. 3)
Population of Canada, *The Canada Year Book*, 1924, p. 743.

* Census years; population in other years estimated.

ately less in Canada where deposits are safer than in the United States. In the period covered the arithmetic mean of the per capita liabilities of failed banks in Canada has been .2829, while in the United States it has amounted to .6925 or more than three times as much.

From the point of view of safety the Canadian system seems superior to that existing in the States and this superiority should become more marked as time goes on with the closer scrutiny of banks. Of course, in comparison with the British or Australian banking system, especially since 1900, the Canadian system suffers. It has not been as safe as those. But with the " house cleaning " which has occurred since the war, it is to be expected that the Canadian record in future years will be materially better. But even as it is the past record has been superior to that of the United States where drastic measures are needed to reduce the number of failures.

CREDIT CONTROL

Still another and final test we shall seek to apply of the adequacy of a banking system is the extent to which it stabilizes business, prevents panics, and mitigates the amplitude of cyclic fluctuations. Perhaps, all in all, this is one of the most important services a banking system, usually under the guidance of a central bank, can render. Prior to the Federal Reserve System, the American banking system was particularly deficient in this respect. The thousands of banks were unable to cope with inflation and speculation and as a matter of fact their influence was exerted largely in the direction of intensifying business fluctuations and consequently of increasing business failures and disasters. United or concerted action among the thousands of unit banks in the matter of credit control was impossible. Each followed its own policies which were calculated for the most part to push out loans and resources to the maximum making it impossible to cope with the critical period accompanying and following a crisis. Panics invariably ensued as the banking system broke under the strain. The inherent weaknesses in the American banking system were brought out in bold relief in the panic of 1907. There

were ominous signs portentous of a coming storm as early as 1906, which were quite unheeded in the United States although made the basis for the credit policies of the Bank of England which was fully prepared when the time came.

The United States now has 12 regional banks which are expected to follow business developments closely and to modify their discount and open market operations accordingly. Not that they always have been able to do this, for in 1915 and 1916 they were too weak to affect the economic situation, and in 1917, 1918, and 1919 they were forced to subordinate their policies to the mistaken ideas of the Treasury Department and even on occasion since then their policies have been such as to intensify the cycle. However mistaken their policies might have been, it is generally recognized by students that one of their real functions, as that of any central bank, is to stabilize prices, in so far as is possible, and the general economic situation.

In Canada there is no central bank which leads the other banks or whose policies of credit control may be studied in the variations in its rate of discount or holdings of purchased bills and securities. Each bank in itself is in a sense a central bank on whose policies of credit control little has been written and little known.

In fact there is probably little attempt to formulate a conscious policy of credit control on the part of the chartered banks.[308] Such is rarely done by commercial banks. The chartered banks, it is true, do have certain more or less mechanical rules to guide them in preventing undue extensions of credit, as would be the case with well managed banks everywhere. Thus they feel that their cash holdings should equal about 10% of their liabilities, certainly no less. In case these fall below, they would probably curtail their loans. Then again some of the banks follow the statements of the others to see if theirs are out of line or if perchance any of the others have expanded or contracted unduly. And to a certain extent the chartered banks are guided by the credit policies of the Bank of England [309] and the Federal Reserve Banks as one might expect from the closeness of the economic relations between the countries.

308 For a discussion of credit control in Canada see article by A. W. Flux, in the *Yale Review,* Vol. XVII, p. 93; and also one in the *Journal of the Canadian Bankers' Association,* Vol. 29.

309 *Minutes of Proceedings, Evidence, etc.,* 1913., p. 239.

The policies followed by the chartered banks in certain crises have been fairly well developed. Thus Sir Edmund Walker, in testifying in 1913,[310] indicated that the chartered banks in 1907 drew in their call loans from the United States and England, disposed of securities, and pressed those of their larger borrowers, who were able to do so, to fund their bank loans into bonds. Their policy has been to support their customers, in so far as they require such support, and to withdraw funds from abroad. Of course now the banks may borrow from the Government, a method not available in 1907. Mr. H. C. McLeod testified that the Bank of Nova Scotia "kept the lid on" in 1907, but endeavored not to press it too hard, recognizing that the business man must be supported if his patronage is to be retained.[311] The crisis financing of the chartered banks was such that no acute disturbances were felt in 1893 and 1907, notwithstanding the suspension of specie payments in the United States. In fact the chartered banks were able in both instances to advance funds to move the harvests of Minnesota and the Dakotas when American funds were not available.

At times the banks, or the larger ones and the Government seem to agree on a common credit policy. It is probable that such was the case during the war when every effort was being made to increase production, and when the farmers were urged to produce more and more. They responded vigorously to this appeal and invested (unfortunately) heavy amounts in lands, machinery, and live stock. The banks did all they could to assist the farmers feed the armies of the Allies. In 1920 when deflation occurred not only in Canada but throughout the world, in Japan, Australia, South Africa, England, and the United States, in fact in all countries not wallowing in increased issues of paper money, the bankers in Canada, too, curtailed credits and probably, informally, at meetings of The Bankers' Association, discussed what should be done. Not that the bankers are to blame for the deflation. It was world-wide, the aftermath of the financing of the war. Credit had to be curtailed if prices were to fall. The rapid fall in prices bore with terrible severity on all classes and

[310] *Minutes of Proceedings, Evidence, etc.*, 1913, p. 551. See also p. 567.
[311] *Interviews on the Banking and Currency Systems of Canada*, pp. 47–48.

especially on the farmers, whose prices fell furthest, as was true in the United States, England and elsewhere. But as explained before, the Canadian farmer did not suffer to the same extent as did the American farmer, for the banks supported and carried him along.[312]

While we know little regarding the policies of the Canadian banks and the methods they employ in exercising credit control, in the sense of lending stability to business, we do know that they support the business man in periods of recession, which according to Walter Bagehot [313] is the correct method of crisis financing. We do know that to do this the banks call home their foreign loans and deposits and put pressure, if need be, on the large business man. We do know that the chartered banks have a more or less mechanistic concept of the proportion of cash they ought to maintain to liabilities and that this acts as a check on over-expansion as effectively as would legal minimum cash reserves. Then we know that each bank follows the balance-sheets of the others and so develops what might be termed a " balance-sheet " concept of credit control. Then at times it seems apparent that the Government and the banks have reached a common understanding on loans and investments as during the war period. However, all things considered, we know little compared with our knowledge of the policies followed by the Federal Reserve Banks. But we do know that Canada, whether because or in spite of the stabilizing influence of her banking system, has had more years of prosperity per years of depression than any other nation.[314]

312 For a further discussion of deflation in Canada see Professor McGibbon's report, pp. 26–28; Professor Swanson's testimony, 1923 hearings, p. 776. Of course the bankers in Canada, as elsewhere, declared that credit contractions followed a fall in prices. See testimony of Sir John Aird, 1923 hearings, p. 355. Sir Edmund Walker expressed the same thought. On the other hand, Sir Frederick Williams-Taylor held an opposite point of view. (1923 hearings, p. 325.)

313 *Report from the Select Committee on Banks of Issue* (England) 1875, questions Nos. 8170, 8171 and 8172.

314 Relative to the points developed in this section, the author received a letter from Prof. J. Courtland Elliott of the University of Saskatchewan which depicts the rôle of the banking system in Canada's economic development in a very realistic fashion.

In considering the relation of the chartered banks to the economic development of the Dominion, I feel it is essential that their influence be judged in terms of the tasks imposed upon them in a country undergoing rapid expansion. Within the limits of the existing legislation and in conformity

with established banking practices, they have had to face the problems of assuring safety to their note holders and depositors on the one hand, to supply adequate funds to legitimate borrowers on the other, and attractive earnings to the shareholders on "any other hand that may be left."

If you will picture the westward surge of population in the early years of this century into the wheatlands of this west, into the mining areas of Northern Ontario and the Klondyke, you will realize the financial requirements imposed upon the banks. The map of the north was rolled back and it was essential that the banks be in the vanguard. To me this is a thrilling and romantic part of Canadian banking and if you were to travel through the pioneer settlements out here you would realize, I am sure, how grateful we Canadians should be for the initiative of Canadian bankers. They may have been over-prudent in certain of their activities, but, subject to my possible bias of judgment, it seems to me that the advantages of our system have outweighed the disadvantages, and I feel that the structure of the banking system was well adapted to the pioneering processes of economic development. The device of branch banking could diversify the risks, render reserves more efficient, and enable unprofitable operation in new territory. The circulation privilege, it seems to me, was a stimulus which brought tangible developmental results. Moreover, there is one point that seems to me to be important which you may have overlooked. I have the impression that a unit banking system can function successfully only when there is a security market or an active money market nearby. Canada had neither, and it is only within the last ten years that anything approaching an adequate security market has developed in this country. The consequence is that even yet Canadian banks are dependent upon foreign money markets to adjust their internal banking position. How much worse it would have been with a system of unit banks where there would have been even a lesser mobility of funds, I will leave to your imagination.

BIBLIOGRAPHY

BAKER, WILLIAM LONG. Money Monopoly vs. the Community Dollar. Toronto: The Commonwealth Publishing Company, 1922.

BONNET, C. "The Canadian Banking System." *Journal of the Canadian Bankers' Association.* Vol. XVII, No. 4. July, 1910.

BRECKENRIDGE, R. M. The History of Banking in Canada. Senate Document No. 583, 61st Congress, 2nd Session. Washington: Government Printing Office, 1910.

CORNWELL, WILLIAM C. The Currency and the Banking Law of the Dominion of Canada. New York: G. P. Putnam's Sons, 1895.

ECKARDT, H. M. P. The Cost of Local Independent Banks. *Journal of the Canadian Bankers' Association.* Vol. XVI, No. 1. October, 1908.

ECKARDT, H. M. P. Manual of Canadian Banking. Published by *Montreal Times,* 1909. Fourth Edition.

ECKARDT, H. M. P. "Causes of Bank Failures." *Journal of the Canadian Bankers' Association.* Vol. XVII, No. 1. October, 1909.

ECKARDT, H. M. P. "Canadian Banking." *The Annals of the American Academy of Political and Social Science,* Philadelphia. Vol. XLV, January, 1913.

FISK, HARVEY E. The Dominion of Canada. New York: Bankers Trust Company, 1920.

FLUX, A. W. "Canadian Banks and Financial Crises." *Yale Review,* Vol. XVII. 1908–1909.

FRAME, ANDREW J. "Branches of National Banks." *Journal of the American Bankers' Association.* Vol. XV, No. 5. November, 1922.

GILMOUR, H. HAROLD. "The Prejudices in the United States against Branch Banks." *Journal of the Canadian Bankers' Association.* Vol. XVII, No. 1. October, 1909.

HAY, A. M. H. "The Canadian Banking System." *Journal of the Canadian Bankers' Association.* Vol. XIV, No. 3. April, 1907.

JOHNSON, JOSEPH FRENCH. The Canadian Banking System. Senate Document No. 583, 61st Congress, 2nd Session. Washington: Government Printing Office, 1910.

KEMMERER, EDWIN WALTER. Seasonal Variations in the Relative Demand for Money and Capital in the United States. A Statistical Study. Washington: Government Printing Office, 1910.

LASH, Z. A. "The United States Federal Reserve Act and the Canadian Banking System with Some Contrasts." *Journal of the Canadian Bankers' Association.* Vol. XXVI, No. 3, pp. 224–244. April, 1919.

McGIBBON, D. A. Report of the Commissioner on Banking and Credit with Respect to the Industry of Agriculture in the Province of Alberta, 1922.

McKENZIE, ALLAN. The Canadian System of Bank Inspection. *Journal of the Canadian Bankers' Association.* Vol. XXXIV, No. 1. October, 1926.

McLEOD, H. C. Reply to Sir John Aird. Privately printed by Mr. McLeod on January 19, 1924.

McLEOD, H. C. The Best System of Banking. An Inquiry. Privately printed, 1925.

MITCHELL, W. A. "Rural Credits." *Scientific Agriculture.* September 27, 1923.

MITCHELL, W. A. "How 11 Chartered Banks Serve Our Neighbor Dominion." *The Bankers' Monthly.* Vol. XLII, No. 7. July, 1925.

MORMAN, JAMES B. Farm Credits in the United States and Canada. New York: The Macmillan Co., 1924.

PATTERSON, E. L. STEWART. "Review of the Canadian Banking System." *Journal of the Canadian Bankers' Association.* Vol. XVII, No. 4. July, 1910.

PATTERSON, E. L. STEWART. Banking Principles and Practice. New York: Alexander Hamilton Institute, 1917.

PRIEST, H. M. "The Canadian Banking System." *Journal of the Canadian Bankers' Association.* Vol. XVII, No. 4. July, 1910.

ROSS, VICTOR. A History of the Canadian Bank of Commerce. Toronto: Oxford University Press, 1920.

SCOTT, FRANK. "The Canadian Banking System." *Journal of the Canadian Bankers' Association.* Vol. XVII, No. 2. January, 1910.

SHORTT, ADAM. "Canadian Banking, Currency and Exchange." *Journal of the Canadian Bankers' Association.* Vol. IX. October, 1901–July, 1902. Toronto: Monetary Times Publishing Company, Limited.

SHORTT, ADAM. "A History of the Canadian Banking System," in Canada and its Provinces. Toronto: T. & A. Constable & Company, 1914–1917.

STEWART, DUNCAN W. "Branch Banks versus Independent Banks." *The Institute of Bankers.* Vol. XXVII. — Part II. February, 1906.

SWANSON, W. W. Canadian Bank Inspection. Bulletin of the Department of History and Political and Economic Science in Queen's University, Kingston, Ontario, Canada. No. 5, October, 1912. The Jackson Press, Kingston.

SWANSON, W. W. "The Revision of the Canadian Bank Act." *The American Economic Review.* Vol. III, No. 4. December, 1913.

SWANSON, W. W. "Present Problems in Canadian Banking." *The American Economic Review.* Vol. IV, No. 2. June, 1914.

SYKES, JOSEPH. The Amalgamation Movement in English Banking, 1825–1914. London, P. S. King & Son, Ltd., 1926.

THORP, WILLARD LONG and MITCHELL, WESLEY C. Business Annals. New York: National Bureau of Economic Research, Inc., 1926.

TORY, H. M. Report on Agricultural Credit. Ottawa: F. A. Acland, 1924.

TORY, H. M. Supplementary Report on Agricultural Credit. Ottawa: F. A. Acland, 1925.

WALKER, B. E. The Canadian System of Banking and the National Banking System of the United States. Toronto: Printed by Trout and Todd, 1890.

WALKER, B. E. "A Comparison of Banking Systems." *Journal of the Canadian Bankers' Association.* Vol. XII, No. 3. April, 1905.

WALKER, SIR EDMUND. Canadian Banking. The Canadian Bankers' Association, 1923.

WHITE, SIR THOMAS. The Story of Canada's War Finance. With the Compliments of the Canadian Bank of Commerce. Montreal, 1921.

WILLIAMS-TAYLOR, SIR FREDERICK. "Canada and Canadian Banking." *Journal of the Royal Society of Arts.* Vol. LIX, No. 3053, May 26, 1911.

Government Documents

Minutes of Proceedings, Evidence, etc. Committee on Banking and Commerce during Parliamentary Session of 1912–1913. Ottawa: Printed by C. H. Parmelee, Printer to the King's Most Excellent Majesty, 1913.

The Senate of Canada. Report of the Special Committee on Agricultural, Industrial and Trade Development. Ottawa: J. de Labroquerie Tache', 1917.

Report of Committee on Rural Credits, 1920. Ontario Department of Agriculture. Toronto: Printed by Clarkson W. James, 1921.

Proceedings (Revised) of the Select Standing Committee on Banking and Commerce of the House of Commons on Bill No. 83. Ottawa: F. A. Acland, Printer to the King's Most Excellent Majesty, 1923.

Royal Commission to Enquire into and Report upon Affairs of the Home Bank of Canada. Issued in 17 parts. Ottawa: F. A. Acland, 1924.

Royal Commission re Home Bank. Interim Report. June 10, 1924. Ottawa: F. A. Acland, 1924.

Proceedings (Revised) of the Select Standing Committee on Banking and Commerce of the House of Commons. Ottawa: F. A. Acland, Printer to the King's Most Excellent Majesty, 1924.

Proceedings (Revised) of the Select Special Committee of the House of Commons to Inquire into Agricultural Conditions. Parts I and II. Ottawa: F. A. Acland. 1924.

The Senate of Canada. Standing Committee on Banking and Commerce, Session of 1926. Evidence of Witnesses on Bill 148. Ottawa: F. A. Acland, 1926.

Proceedings and Evidence. Select Standing Committee on Banking and Commerce. House of Commons. Consideration of Improvement of the Banking System of Canada. Session 1928. Ottawa: F. A. Acland, Printer to the King's Most Excellent Majesty, 1928.

Agricultural Loans. Department of the Interior, Ottawa, Canada.

Report of the Treasury Committee on Bank Amalgamations. London: Published by His Majesty's Stationery Office, 1918.

Fifty-Fifth Annual Report of the Deputy Master and Comptroller of the Royal Mint. His Majesty's Stationery Office, London.

Interviews on the Banking and Currency Systems of Canada. Senate Document No. 584. 61st Congress, 2nd Session. Washington: Government Printing Office, 1910.

Consolidation of National Banking Associations. Hearings before a Subcommittee of the Comittee on Banking and Commerce. United States Senate, 69th Congress. First Session on S. 1782 and H.R. 2. Washington: Government Printing Office, 1926.

Reports of the Chartered Banks of the Dominion of Canada — Made to the Minister of Finance.

The Canada Year Book.

The Bank Act of 1923 — and amendments.
Official Report of the Debates of the House of Commons of the Dominion of Canada.

Bank Publications

Seventy-Eighth Annual Report. Bank of Nova Scotia. Printed by Bank of Nova Scotia, 1909.
The Centenary of the Bank of Montreal, 1817–1918. Head Office, Montreal, Canada, 1917.
Bank of Montreal. An Outline of Its History. Published by the bank.
The Dominion Bank. Fifty Years of Banking Service. Published by the Dominion Bank. Toronto, Ont., 1922.
Banks and Banking: With Considerations of the Functions of Credit and Currency. With the Compliments of the Canadian Bankers' Association, 1923.
The Bank Act: Its Audit Provisions and the Suggested Guarantee of Deposits. With the compliments of the Canadian Bankers' Association, 1924.
Annual Reports of the Chartered Banks.

Miscellaneous

Practical Banking and Foreign Exchange. Queen's University Course in Banking, 1914.
Monetary Times, Trade Review and Insurance Chronicle of Canada.
Monthly Bank Directory of Canada and Newfoundland. Toronto: Houston's Standard Publications.
The Statesman's Year Book.

INDEX